

Our Jewish

Legacies

Fall/Winter 2005

Tax, Estate and Charitable Planned Giving Opportunities

Avoid Taxes Now . . . Give to Charity Later

Donor advised funds simplify charitable giving and provide tax deductions for donors.

The end of the calendar year presents us with a timely opportunity to review our financial plans. Charitable gifts are the easiest, most flexible way to increase your 2005 tax deductions. However, deciding which worthy organizations should receive charitable donations can be a cumbersome task with such a short amount of time left in the year.

Luckily, the Dallas Jewish Community Foundation offers a simple solution. Establishing a Donor Advised Fund (DAF)

at year's end allows you to maximize your charitable deductions, and gives you time to decide your charitable distributions later.

“The service we’ve gotten from the Foundation staff has been first class.”

– Frank and Helen Risch

“People who are thinking about year-end giving but need more time to decide where their dollars should go can make a single contribution to a Donor Advised Fund and then decide which charities and which amounts they’d

like to allocate after the first of the year,” said David Adler, a member of the Foundation’s Professional Advisory Committee.

A Donor Advised Fund is a named fund in which the donor retains the privilege of making charitable recommendations, and can be established with as little as \$5,000. Because the Foundation is a public charity rather than a private foundation, the donor is eligible for the largest allowable tax deduction for his or her donation.

“When you have a Donor Advised Fund, you can budget a year’s worth of charitable gifts in December and pay one lump sum to your fund – not even knowing what the projects and requests are going to be because they haven’t been dreamed up yet. Then, as the requests come in the next



Fundholders Frank and Helen Risch

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Less Obvious Year-End Suggestions

Year-end planning is more than just projecting how much tax you'll owe next April. Here are some points to keep in mind to make the most of available tax deductions:

1 If you're selling shares of stock before year's end, identify those you wish to sell. Suppose you've owned shares of XYZ stock for several years. Some were purchased at \$20 per share and others were purchased at \$25 per share. If you sell the \$25 shares, your capital gain will be lower. If you don't designate, it's assumed that you are selling the shares that you have owned the longest, which may be those with the lower cost basis.

2 Ask your tax adviser whether you can or should convert a traditional IRA to a Roth IRA. You're eligible to make the switch if your adjusted gross income for 2005 is below \$100,000. You can exclude any required IRA distributions for 2005 when determining whether you're eligible. You will have to pay tax on any amounts converted to a Roth, but all qualified distributions in the future will be tax free. And unlike traditional IRAs, you

won't have to take mandatory withdrawals from the Roth after age 70½.

3 If you own a small business, consider purchasing needed equipment before year's end to take advantage of the \$105,000 allowance that permits a deduction this year, rather than depreciating the item. You also may be able to shift some income to next year by waiting until late in the year to send out bills.

4 Check with your mutual fund company before investing near year's end. If you purchase shares just before the fund makes a distribution of capital gains, you'll owe tax, even though you may have held the shares only a few days.

5 Do you own some of the \$9 billion in U.S. savings bonds that have matured? If so, your bonds no longer earn interest. Redeem the bonds and use the funds to invest elsewhere. Or use the redemption proceeds to make a year-end gift to the Dallas Jewish Community Foundation. The deduction will offset the taxes you'll owe on the interest, if you itemize.

6 Check your withholding and estimated tax payments. If you haven't withheld enough (90% of your tax lia-

bility for 2005 or 100% of your tax liability for 2004; 110% if 2004's adjusted gross income was more than \$150,000), ask your employer to withhold more from your final paychecks.

7 Did you buy a home this year? A part of the interest paid at closing is deductible on this year's return.

8 If you're retiring before year's end or early in 2006, get all the papers ready to apply for Social Security.

9 Contribute the maximum possible to your IRA or 401(k) plan. If you're over age 50, you can increase your IRA contribution from \$4,000 to \$4,500 and your 401(k) from \$14,000 to \$18,000. Don't forget that a nonworking spouse can fund an IRA.

10 Your year-end gift to the Foundation can be mailed as late as December 31 and still qualify for a 2005 deduction. If you're thinking of giving stock, mutual fund shares, real estate or making a gift in trust, allow plenty of time for the transfer to be complete by the end of the year. Six to eight weeks may be needed to complete gifts of mutual funds, real estate or gifts in trust.

Up, Down and All Around

There are changes to consider as you begin tax planning for 2006. Here are a few, along with ideas for capitalizing on them:

Up



- ❖ The estate tax credit will shelter estates up to \$2 million, compared with \$1.5 million in 2005. Ask your attorney whether your estate plan takes full advantage of the increased exemption. Be careful not to overfund a family trust, and possibly shortchange your spouse.
- ❖ The catch-up contribution to IRAs for taxpayers age 50 and older increases from \$500 to \$1,000. Make sure you contribute the maximum amount possible as early in the year as you can – up to \$4,500 in 2006. Your funds will have longer to grow tax-sheltered.
- ❖ The maximum contribution to a 401(k) plan increases by \$1,000 in 2006, to \$15,000. The catch-up contribution also goes up \$1,000, to \$5,000, meaning eligible taxpayers can contribute \$20,000 in 2006.

Down



- ❖ The exemption for the alternative minimum tax

drops from \$58,000 for married couples and \$40,250 for single taxpayers to \$45,000 and \$33,750 respectively. This means more people will be subject to the AMT unless Congress acts to extend the higher exemptions. Ask your tax adviser whether you're likely to be subject to the AMT in 2006 and, if so, what you can do to make the best of the situation.

- ❖ The top estate tax rate drops from 47% to 46% for estates in excess of \$2 million. A bequest to the Dallas Jewish Community Foundation in your estate plan could help reduce or even eliminate the tax. We can also show you ways to reserve income for loved ones from your gifts.
- ❖ The cutbacks on itemized deductions and personal exemptions for high-income taxpayers will be reduced. For 2006, the cutback on certain itemized deductions is 3% of the amount by which adjusted gross income exceeds \$150,500, up to a maximum of 80% of the affected deductions. Taxpayers lose 2% of their personal exemptions for every \$2,500 over the threshold AGI of \$150,500 (single taxpayers) or \$225,750 (married couples). Both reductions are cut back by one-third beginning in 2006, meaning you may get more benefit from

your itemized deductions and personal exemptions.

Going Nowhere



- ❖ The gift tax exemption continues to shelter lifetime taxable gifts up to \$1 million. This number remains the same, even though the estate tax exemption is increasing in 2006 and again in 2009 (\$3.5 million). The annual gift tax exclusion, however, rises from \$11,000 to \$12,000 in 2006. After 2005 you can give up to \$12,000 annually to as many people as you wish (\$24,000 for married couples). You can also pay medical and education expenses directly to the health care provider or school on behalf of another. There are also ways to make your taxable gifts go further by combining them with gifts to the Foundation. Ask us for ideas.

Going, Going, Gone



- ❖ The above-the-line deduction for up to \$4,000 of college tuition expenses for the taxpayer, spouse or dependent is eliminated after 2005.

Avoid Taxes Now . . . (continued from page 1)

year, you can make recommendations to support them from your DAF,” Adler said.

Stuart Blaugrund recently established a Donor Advised Fund for this very reason. “With the year-end fast approaching, establishing a Donor Advised Fund is allowing me to leverage my tax deductions now and make charitable distributions later,” he said.

In addition to offering donors an immediate tax deduction, Donor Advised Funds also simplify record keeping and reporting. Donors who contribute to a DAF enjoy streamlined reporting of their charitable giving. Can you honestly recall every \$50 gift you made last year? Did you save every receipt? DAF fundholders need only report the



Stuart Blaugrund established his Donor Advised Fund at the year's end to leverage his tax deductions now while making his charitable decisions later.

contributions made to the DAF. The Foundation takes care of everything else.

“Opening a Donor Advised Fund has simplified our recordkeeping and the whole

giving process,” said Frank Risch. “The service we’ve gotten from the Foundation staff has been first class.”

“There are many avenues you can go through to establish a Donor Advised Fund,” said Richard Glazer. “But it’s important to support our community.”

Kevin Paillet added, “No matter which charity I support, the check is issued by the Dallas Jewish Community Foundation. I like sharing the message of Jewish philanthropy.”

For more information on how you can establish a Donor Advised Fund at year’s end with stock, real estate, cash or check and receive an immediate tax deduction, call (214) 615-9351 or visit our Web site at www.djcf.org.



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