

Planned Giving News

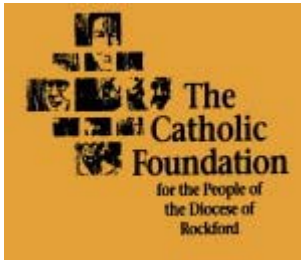
Catholic Diocese of Rockford

March 2008



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From Greg Urban, Diocesan Director of Planned Giving



Dear Greg :

Do you struggle in your efforts to promote planned giving and sometimes feel that what you are doing really isn't making a difference? I have included a short article I received from a friend that gives example of why struggling is sometimes necessary. I hope you enjoy it.

I wish you all a blessed Holy Week and joyous Easter season.

The Power of Struggling

A man found a cocoon of a butterfly. He sat and watched the butterfly for several hours as it struggled to force its body through the little hole at the end.

Eventually, the butterfly stopped making progress. It appeared as if it had gotten as far as it could and it could go no farther. The man decided to help the butterfly, so he took a pair of scissors and snipped off the remaining bit of the cocoon. The butterfly then emerged easily, but it had a swollen body and small, shriveled wings.

The man continued to watch the butterfly because he expected that, at any moment, the wings would enlarge and expand to be able to support the body, which would contract in time.

Neither happened! In fact, the butterfly spent the rest of its life crawling around with a swollen body and shriveled wings. It never was able to fly.

What the man in his kindness and haste did not understand was that the restricting cocoon and the struggle required for the butterfly to get through the tiny opening were nature's way of forcing fluid from the body of the butterfly into its wings so that it would be ready for flight once it achieved its freedom from the cocoon.

Sometimes struggles are exactly what we need in our life. If nature allowed us to go through our life without any obstacles, it would cripple us. We would not be as strong as what we could have been. And we could never fly... *Author Unknown*

Bulletin Blurbs Bulletin Messages for Easter

HOLY WEEK

As we remember Christ's sacrifice, we are moved to express our faith and love. Call Deacon Greg Urban at The Catholic Foundation at 815-399-4300 to learn how a planned gift to our endowment can help preserve our precious heritage.

EASTER

Give a gift of Easter Joy. Be an angel and make a planned gift to our endowment. Christ's resurrection gave us hope of eternal life. Your gift gives hope to our parish that we can continue to proclaim this joyous message for years to come. "Go and proclaim to all



P.S. Even if you do nothing else to promote planned giving in your parish or organization, please consider placing the included blurbs in your bulletins or newsletters.

nations..."

Opinion: Philanthropy Stock Markets Will Be Common in the Next 25 Years from Philanthropy Today

Keep planting seeds!

Ministry Quicklinks

[Rockford Stewardship web](#)
[Catholic Foundation web](#)

Twenty-five years from now, grant makers will seek out grantees - rather than the other way around - and base their decisions on extensive information that is widely shared, predicts Sean Stannard-Stockton, a principal and director of tactical philanthropy at Ensemble Capital Management, in a *Financial Times* column.

Grant makers will exchange information through social stock exchanges that resemble the financial markets, he writes. Looking back from the perspective of the year 2033, he says, "As funders became comfortable with the idea that sharing information with other donors provided greater social impact, a sense of community and camaraderie developed that set the social exchanges apart from the traditional financial markets."

He also predicts that most Americans, even those with moderate means, will open donor-advised funds - in 2033, they will be available through bank accounts linked to checking accounts.

Nuts and Bolts. More than you may want to know... IRA Gifts Are Dead... Long Live Retirement Plan Gifts

by Barlow T. Mann

As the provisions of the *Pension Protection Act of 2006* expired at the end of 2007, a number of questions have been raised concerning the viability of charitable gifts from IRA and possibly other retirement plan assets. This article is devoted to answering some of these questions about gifts from retirement plans.

Q: Are we precluded from accepting or encouraging gifts from retirement plans until the passage of legislation favorable for gifts from retirement plans?

A: Not necessarily. In many cases, charitable gifts may be arranged in a fashion that will, in effect, result in much the same tax treatment as under the PPA/IRA provision for 2006 and 2007.

Q: How is this possible?

A: Charitable IRA gifts under the PPA were basically "non-taxable" events. The IRA assets transferred to charity were not counted as income or as a deduction and therefore were a "wash" for tax purposes. For many persons, the giving of retirement plan assets can still be a wash for tax purposes.

Q: What do you mean by a 'wash' for tax purposes?

A: A "wash" occurs when there is a tax deduction that fully offsets a tax liability. For example, suppose I withdraw \$10,000 from my IRA and give that money to charity. On one hand I have \$10,000 of additional adjusted gross income that would otherwise be taxable, and on the other a \$10,000 tax deduction, resulting in no additional tax liability-hence a "wash."

Q: Does this mean that all donors can now give funds from IRAs on a tax-free basis?

A: No. Remember they generally must be over 59 1/2 because if they are younger and experience an additional 10% penalty it would not be a wash, and the gift must otherwise be structured in such a way that they create a deduction that fully offsets tax liability. This means that gifts must be within the 50% of adjusted gross income limitation and that the partial reduction of itemized deductions for some high-income taxpayers must be considered.

Q: Can you give an example?

A: Suppose that you have a recently retired couple, both of whom are over the age of 59 1/2, with a \$75,000 adjusted gross income. They would like to make an outright gift of \$10,000. They have an IRA worth over \$1 million. Under today's law, they can withdraw \$10,000 from their IRA and use those funds to make a gift, which is fully deductible up to 50% of their adjusted gross income. Note that the IRA withdrawal serves to increase their AGI to \$85,000, so their gift would be well within the 50% of AGI limit and their income is not high enough to worry about reductions in other deductions because of reporting some additional income.

Q: What about the limit, on itemized deductions for high-income persons?

A: Persons with taxable incomes above a certain level (at \$156,400 for joint filers in 2007) will find that their itemized deductions are effectively reduced by 1% of the amount that their income exceeds the threshold amount. For instance, if a donor's income were \$100,000 over the threshold, his or her itemized deductions would be reduced by 1% of that amount, or \$1,000. Practically speaking, this limitation rarely affects charitable gifts. The \$10,000 gift described above would be unaffected.

Q: What about people with incomes far in excess of the threshold?

A: Take the case of a donor with \$1 million in income over the threshold. He or she would find that itemized deductions for taxes, mortgage interest, and other expenses would be reduced by 1% of that amount, or \$10,000, whether or not they made charitable gifts. If a taxpayer in this situation decided to make a gift from IRA assets, the gift would still result in a virtual wash for tax purposes. In this situation, a \$100,000 IRA withdrawal followed by a charitable gift in the same amount increases adjusted gross income by \$100,000, which would entail a reduction of the taxpayer's itemized deductions by \$1,000. The result is a 99% wash for tax purposes, with just \$1,000 of the withdrawal amount subject to tax. In a 35% tax bracket, some \$350 in tax would be due on the \$100,000 withdrawal.

Q: What about persons over 70½ who are forced to take retirement plan withdrawals they do not need?

A: This could be an ideal situation for a charitable gift. If they itemize, charitable gifts of these funds and the resulting offsetting charitable deduction allow them to direct the full use of those funds to charitable purposes without any net additional tax.

Q: What if the donor is concerned about the size of the gift or bumping into the 50% AGI limitation?

A: This concern might be addressed by breaking the gift into installments. For example, assume a retired couple with a \$100,000 AGI would like to make a \$200,000 gift from an IRA with a balance of over \$2 million. If they withdrew \$200,000 to make the gift, they would not be able to fully deduct it. Their new AGI would be increased to \$300,000, but their deduction would be limited to \$150,000. However, if they broke the withdrawal and subsequent gift into two equal installments over two tax years, the gift would be fully deductible. This could be as simple as making one gift in December of 2008 and the other gift in January of 2009.

Q: I have a donor who is interested in making a life income gift. Do you have any suggestions?

A: The charitable deduction associated with a charitable remainder trust, pooled income fund, or charitable gift annuity funded with a retirement plan withdrawal will result in only a partially offsetting deduction. As a result, the donor may want to use additional assets to increase the size of the split interest gift until an offset is achieved. Or a donor that is funding a life income gift with cash, stock, or other appropriate assets may choose to use that charitable deduction to shelter required withdrawals from his or her retirement plan.

Q: Can you summarize some of the issues associated with gifts from retirement plans today?

A: The best prospects for these gifts will be persons over 59 1/2 with significant retirement plan balances. Remember that deductions are limited to 50% of AGI for gifts of cash, so consider the advantages of breaking the gift into installments where larger gifts are concerned. In most instances, the limitation on itemized deductions for high-income taxpayers should not be a serious issue. Don't forget to promote beneficiary designations as a way to keep these assets from ever being subject to an income or estate tax. The donor should check with his or her own tax advisors about the possible impact of state taxes.

With trillions of dollars at stake, it may be unwise to wait for pending or proposed legislation to make gifts of retirement plan assets more attractive. But remember the Pension Protection Act of 2006 and proposed legislation that would allow tax-free gifts from retirement plans apply only to IRA assets and not to funds in 401(k) plans or other retirement planning options. The ideas referred to above will work with these other plans as well.

In the final analysis, the proposed legislation should result in additional gifts by removing certain disincentives and making it easier to plan gifts of IRA funds. But don't forget existing tax planning opportunities already exist under current law. Charities that fail to promote appropriate gifts of these assets may be missing an important "pocket" from which donors can make meaningful gifts today.

Barlow T. Mann is an attorney and chief operating officer of The Sharpe Group. He designs planned giving programs for a number of America's nonprofits, presents seminars, and authors many articles on gift planning.

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