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Client Information Bulletin

February 2010

Giving Gifts of Property to Charity

Avoid tax pitfalls on noncash donations

Despite recent changes requiring stricter substantiation of monetary gifts to charity, the tax rules are pretty straightforward when you write out a check or charge a donation by credit card. In general, you can deduct the full amount of your charitable donation in the year in which you make the gift.

However, the rules are considerably more complex if you give appreciated property to charity. Fortunately, you can realize significant tax savings with some careful planning.

Starting point: The term "appreciated property" applies to property with a fair-market value (FMV) in excess of your basis. Ordinarily, your "basis" is what you paid for the property. Your basis for depreciable property is reduced by any depreciation deductions allowed over the years. In addition, if you acquired the property by gift, you assume the same basis the donor had immediately before the gift.

However, depending on how long the property has been held, a different set of rules may apply. This is where things can get tricky. For this purpose, the deduction for donated property held for one year or less is limited to the property's basis.

Example 1: Suppose you donate shares of stock worth \$3,000 to a charity. You acquired the stock six months ago for \$2,000. As a result,

your deduction is limited to \$2,000, your original basis in the property.

On the other hand, there is a different rule if you have held the property longer than one year (i.e., the holding period to qualify for long-term capital gain). In this case, you can generally deduct the full FMV of the property. In other words, the appreciation is untaxed—forever.

Example 2: Assume the same facts as before, except that you bought the stock more than a year before making the charitable contribution. As a result, you can deduct the FMV of \$3,000—\$1,000 more than before.

But that is not the end of the story. There are several other potential pitfalls to avoid. In some cases, your deduction for property that has been held for more than one year may be limited to your basis.

Say you contribute tangible personal property that is put to an "unrelated use" by the charity. A painting donated to an art museum and prominently displayed would be related to the use. However, artwork given to a hospital and relegated to a closet is not. The deduction is limited to your basis.

Other special rules may apply to gifts of appreciated property. For example, no deduction is allowed for a gift of a "future interest" in tangible personal property (i.e., the

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Note that you may need additional records when you file your tax return. A written description is required for non-

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Final point: Before you donate property to charity, consult a tax adviser. This is the best approach for maximizing deductions.

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Spousal beneficiaries: Assuming you are the sole beneficiary of a traditional IRA, you may choose to treat your spouse's IRA as your own. This means you can contribute to the IRA, if you have compensation. Furthermore, if you are younger than 70½, you do not have to take required minimum distributions (RMDs). Note: RMDs are generally required after reaching age 70½, but this requirement for IRAs has been suspended for the 2009 tax year.

Alternatively, you may leave the IRA in your spouse's name, with you as the beneficiary. If your deceased spouse

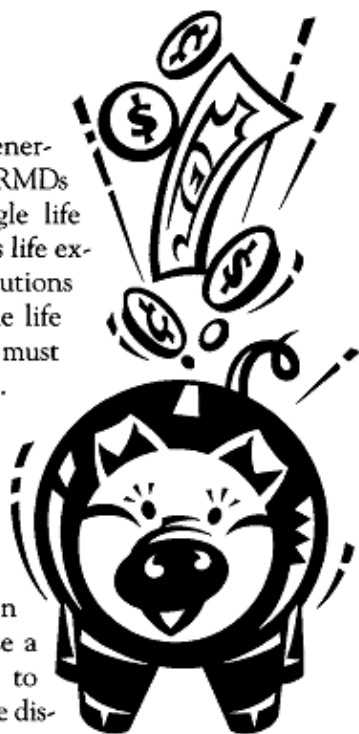
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Another possible option is to roll over the inherited IRA assets into your own IRA. The rollover is exempt from current tax liability if completed within 60 days. **Best approach:** Use a "trustee-to-trustee" transfer to avoid tax withholding on the distribution from the IRA.

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Distributions from an inherited IRA are taxed at ordinary income rates. (The maximum tax rate for 2010 is 35%.) If you fail to take an RMD, you must pay a penalty tax equal to 50% of the required amount of the distribution.

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Six areas for business owners to focus on

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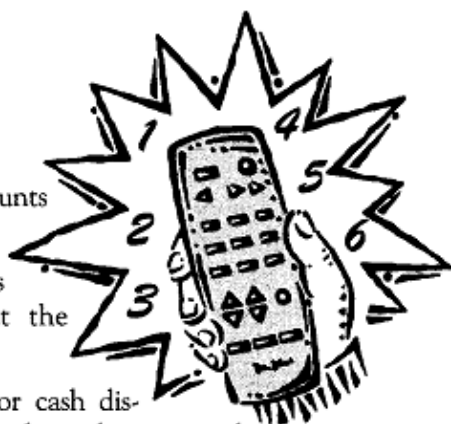
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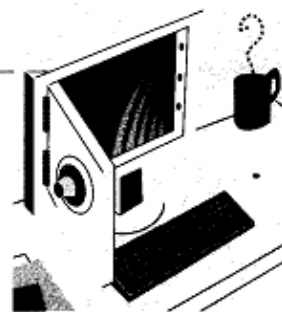
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If you have not yet installed an adequate firewall on your network, do not put this off any longer. And, if you already have a firewall in place, it may be time for an upgrade.

What exactly is a firewall? In basic terms, it is a software program or hardware device that filters data coming through Internet connections into your company’s computer network. If the data sets off alarms due to perceived threats, the firewall will not allow it through.

In many cases, a small-to-mid-sized business will now have its computers interconnected on the network. The company might be connected to the Internet through a T1 or T3 line. If you do not have a firewall in place, all of the company’s computers are at risk from someone else on the Internet.

What could happen? A knowledgeable hacker could probe those computers by trying to make FTP connections or telnet connections to them. If one of your employees unintentionally creates a security opening, an outsider could conceivably exploit the hole in the system.

What does a firewall do to deter hackers? It acts like a traffic cop because it uses a protocol to distinguish between

legitimate and suspicious network traffic. Thus, it allows your employees to function in a normal manner, but it denies access to outsiders who may be malicious.

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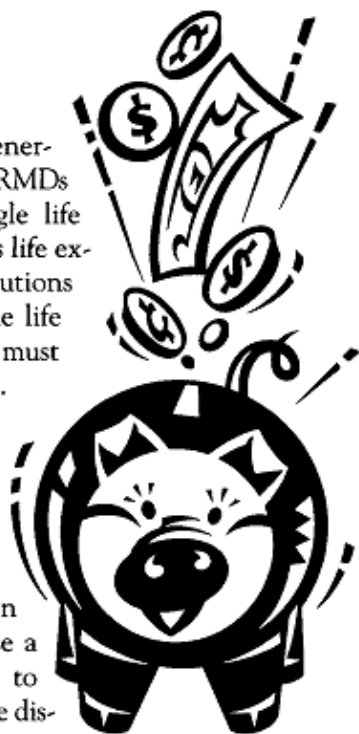
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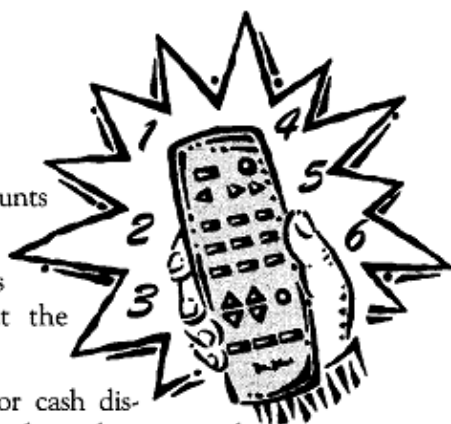
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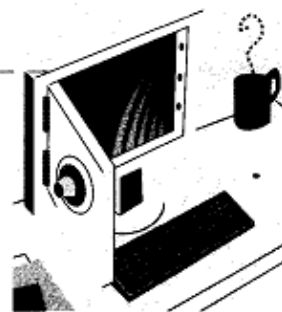
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