



# Legacy of Caring

Fall 2007

## Charitable Giving With Timely Tax Benefits

### RETIRED ANESTHETISTS TAKE ADVANTAGE OF NEW LEGISLATION TO PROVIDE FOR ST. JOSEPH'S FUTURE



Barbara Keller and  
Donna Nichols

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—DONNA NICHOLS**

As St. Joseph’s Hospital prepares for a future of compassionate care fueled with the latest technology and specialized services through its *Building on our Mission* capital campaign, dedicated supporters like Barbara Keller and Donna Nichols are paving the way.

Keller and Nichols, retired anesthetists who spent a good portion of their careers at St. Joseph’s, took advantage of the Pension Protection Act of 2006 to make contributions directly from their individual retirement accounts (IRAs) to the campaign.

“It’s a good way of giving to a charity and also getting a tax benefit,” Keller says. She was born at St. Joseph’s, graduated there as a registered nurse and worked one year in the hospital before returning to spend another 13 years at St. Joseph’s after becoming a certified registered nurse anesthetist.

Keller contacted St. Joseph’s after reading about the tax advantages available in 2006 and 2007 by donating required minimum IRA distributions directly to

a charitable organization. She knew the hospital was expanding and thought this was a great way to support that effort. “I hope it will continue to advance faith-based values and be a prominent hospital in the Twin Cities area,” she says.

Nichols says a number of charitable organizations informed her about the Pension Protection Act opportunity, and the timing coincided perfectly with her attaining age 70½ and facing her first required distribution. She spent the last 27 years of her career with St. Joseph’s and decided to use this unique opportunity to support the building campaign.

“I’ve always felt that St. Joseph’s is an outstanding hospital, and the care they give patients is excellent,” she says. “When I considered various requests, this was definitely the one I wanted to support.”

If you are interested in taking advantage of the Pension Protection Act or would like additional information, please call the HealthEast Foundation at (651) 232-4990.

## A Last-Chance Opportunity for Giving:

### The Charitable IRA Rollover

When planning your charitable gifts, there's a timely option that can pay big dividends at tax time. Under the Pension Protection Act of 2006, for a limited time individual retirement account owners who have attained age 70½ can make tax-free charitable gifts directly from their plans! But you must act soon. This provision's expiration date, Dec. 31, 2007, is quickly approaching.

Prior law, which still applies to those who don't qualify under the new rules, dictates that an individual who makes a withdrawal from an IRA and donates it to a charitable organization must include the taxable portion of the withdrawal in his or her gross income. They could then claim a charitable deduction for the amount of the gift. Although this sounds relatively simple, it can add complexity and, in some cases, create additional taxes.

The new law removes these obstacles and streamlines the process by allowing qualifying IRA owners to exclude "qualified charitable distributions" from their gross income. Excluding this income also eliminates the need to claim an offsetting charitable deduction. Therefore, the new plan will be particularly attractive to donors

who wouldn't otherwise itemize their tax deductions.

#### WHY DONATE FROM YOUR IRA?

When planning your charitable contributions, it's a good idea to donate assets on which you (or your heirs) would otherwise pay the highest tax.

- **Saving Taxes Now**—Unlike certain capital gains and qualified dividends from other assets you may own, which are both taxed at a maximum federal rate of 15 percent, distributions from IRAs can be taxed at the top federal rate of 35 percent. Therefore, if given a choice, it makes good sense to give away income from your IRA that would otherwise be taxed at the highest tax rates and keep assets that are taxed at lower rates.
- **Saving Taxes Later**—A more important reason to consider donating from your IRA *now* involves how your plan might be taxed *later*. IRAs can be one of the most expensive assets to pass to your heirs, but one of the least expensive to give to charitable organizations. Why?

First, like other assets you own, the value of your IRA will be included in

your estate for federal estate tax purposes. Depending on the size of your estate, unless the beneficiary of your plan is a surviving spouse, a portion of your plan could be subject to federal estate taxes of up to 45 percent. Next, unlike most other assets that receive a stepped-up cost basis in your estate, IRAs produce "income in respect of a decedent." This means that after the payment of any estate taxes, your heirs will pay income taxes on the remainder. Add state income taxes and the combined tax erosion can exceed 80 percent.

As an alternative, if you donate from your IRA during life or name a charitable organization as the beneficiary of your plan after you are gone, all of these taxes disappear.

#### QUESTIONS?

Following are some of the most frequently asked questions that apply to IRA changes brought about by the Pension Protection Act of 2006:

#### What is a qualified charitable distribution (QCD)?

A QCD is any distribution from a traditional IRA made directly by the IRA administrator to a public charity

described in Internal Revenue Code that would have been taxable if distributed to the account owner.

Unfortunately, QCDs do not include gifts to donor advised funds or supporting organizations.

### **Who can make qualified charitable distributions?**

IRA owners who are at least age 70½ on the date of distribution may make gifts this way.

### **Is there a time limit?**

Yes. **This provision is scheduled to expire at the end of 2007.** Unless it is extended, your gifts must be delivered no later than Dec. 31, 2007.

### **Is there a dollar limit?**

Yes. You can exclude up to \$100,000.

### **Can charitable distributions be applied to my minimum required distribution requirements for the year?**

In many cases, yes. If, for example, you are required to withdraw 5 percent from your IRA for the year, you can direct the entire amount to a charitable organization in satisfaction of your minimum required distribution.

### **Do special rules apply if I have made nondeductible contributions to my IRA?**

Yes. In fact, the rules are very favorable. Only amounts that would otherwise be taxable to you if withdrawn are QCDs. In addition, taxable amounts for all your plans combined are considered as being distributed first. For example, if all of your IRA accounts total \$150,000 (including \$50,000 of nondeductible contributions), you can make QCDs totaling \$100,000. If you like, you can then withdraw the remaining \$50,000 personally as a tax-free return of your nondeductible contributions, donate it and claim an additional \$50,000 income tax charitable deduction.

### **Because I am not claiming a deduction, do I still need a tax receipt?**

Yes. Although you will not be claiming a charitable deduction, we will provide you with a written acknowledgement to substantiate your exclusion. In order for your gift to qualify, the acknowledgement must also state that you received no benefits of value in exchange for your gift.

### **How do I get started?**

A great place to start is to give us a call and let us know you are interested in

## **The Secret to Maximizing Your Tax Advantages**

Learn how the Pension Protection Act of 2006 makes it easier to make charitable gifts from your IRA now and in the future. Request your FREE copy of *How to Make Charitable Gifts From Your IRA* using the enclosed reply card.

making a gift from your IRA. We also recommend you contact your tax advisor **soon to make sure you have enough time to make the gift.** There is no substitute for professional advice.

### **How do I request a charitable distribution from my IRA?**

Once you have determined the amount of your gift, contact your IRA plan administrator and request the distribution be made payable directly to the charitable recipient. We would be pleased to provide you with a sample request.

## Give and Receive:

### The Benefits of Year-End Giving

When you make a charitable gift to the HealthEast Foundation by Dec. 31, 2007, you are entitled to significant tax savings while supporting our mission. The assets you give will determine your deductions when you itemize. For example:

- **Cash.** Your gift is fully tax-deductible up to 50 percent of your adjusted gross income (AGI) in the year you make your gift. You are allowed to carry over any excess deduction for five additional years.
- **Stock.** A gift of long-term appreciated stock offers two tax savings. First, you avoid capital gains tax. Second, you receive an income tax deduction—based on the increased value of the stock instead of its lower cost basis—of up to 30 percent of your AGI, with a five-year carryover for any excess.

- **Tangible personal property.** By giving personal property valued at \$250 or more that is related to our tax-exempt function, you may be eligible for a deduction for its fair market value up to 30 percent of your AGI, with a five-year carryover, and avoid capital gains tax. For a gift unrelated to our function, the deduction is limited to your cost basis up to 50 percent of your AGI.



#### HealthEast Foundation Legacy Society

The HealthEast Foundation Legacy Society recognizes individuals for their commitment to compassionate, quality health care through planned gifts and special contributions to HealthEast Care System. The Legacy Society is designed to provide opportunities for donors to stay connected with HealthEast and its programs. The dedication and generosity of Legacy Society members enable us to offer a vision of future programs that bring hope and health to our community.

For more information on the benefits of joining the Legacy Society, please call the HealthEast Foundation at (651) 232-4990.

#### MISSION

THE HEALTHEAST FOUNDATION DEVELOPS PHILANTHROPIC SUPPORT, CONSISTENT WITH OUR JUDEO-CHRISTIAN HERITAGE, TO BENEFIT PATIENTS AND THE COMMUNITIES SERVED BY HEALTHEAST CARE SYSTEM.

#### DO YOU WANT TO LEAVE A LEGACY FOR YOUR FAMILY, FRIENDS AND HEALTHEAST FOUNDATION?

Learn how to plan for tomorrow at our web site, [www.HealthEast.org/foundation](http://www.HealthEast.org/foundation). Click on "Ways to Give" in the left-hand column. You won't find a more complete resource for estate and charitable planning anywhere else on the web.

- Discover a virtual encyclopedia of information on how and what to give.
- Access hundreds of up-to-date articles on making the most of your charitable giving.
- Calculate your income tax deduction for charitable gifts.



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