

Two Minute Legal Update

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Blowing in the Wind

In the aftermath of hurricanes Katrina and Rita, the federal government passed the Katrina Emergency Tax Relief Act ("KETRA") of 2005. An important provision of KETRA addresses charitable gifting. KETRA provides that for cash contributions made by individuals to qualified charities from August 28, 2005 through December 31, 2005, individuals can take a dollar for dollar charitable deduction up to an amount equal to 100% of the individual's adjusted gross income for 2005. This creates a great gifting incentive for everyone and may be particularly beneficial to those whose charitable deductions would

otherwise be subject to the 50% adjusted gross income limitation.

Under KETRA, the individual's cash contributions can be to any one or more qualified charities. Importantly, the KETRA 100% deduction is not limited to contributions to hurricane relief related charities. A "qualified charity" encompasses all public charities.

In addition, KETRA waives the 3% itemized deduction reduction for qualified charitable contributions from individuals. KETRA states that the "3% reduction" is not applicable to qualified cash gifts to charities. The result is that the individual donor can get a 100% charitable deduction up to the amount of his or her adjusted gross income.

For a person over age 59 1/2 who would like to use retirement plan funds for charitable gifting, KETRA presents a unique opportunity. Under KETRA, all retirement plan funds withdrawn by the donor and contributed to a qualified charity between August 28 and December 31, 2005 are eligible for the charitable deduction. Those considering using retirement plan funds to make KETRA gifts are advised that early action is best as it may take some time to arrange the distribution of the funds.

After December 31, 2005, the charitable deduction provisions of KETRA terminate. Accordingly, those wishing to

Quips and Quotes

"I am impressed with people from Chicago. Hollywood is hype, New York is talk, Chicago is work."

—Michael Douglas, Actor and producer

take advantage of the KETRA incentives should arrange to have their charitable gifts completed by December 31, 2005. Only cash gifts from individuals qualify for the 100% deduction; non-cash assets must be converted to cash prior to being gifted to the charity.

It is important to note that limitations on itemized deductions could come into play when adjusted gross income is increased by a large withdrawal from a retirement plan. For example, the 3% reduction on itemized deductions discussed above will apply to reduce other (non-KETRA qualified) itemized deductions when adjusted gross income exceeds the threshold levels. Also, please be aware that the KETRA charitable deductions are federal provisions, and there are still some unanswered questions about the law. State income tax laws may not produce the same charitable deduction. Please consult with your income tax advisor to determine the impact of charitable gifting on your state and federal income taxes, but do it quickly before this benefit is gone with the winds of winter.



Ellen Murphy and Abbey Hirschenberger at the Lincolnway Central High School Homecoming.