



North Carolina Coastal Federation | 3609 Hwy 24 (Ocean) | Newport, North Carolina 28570 | Web: <http://www.nccoast.org>

# Press Release

**FOR IMMEDIATE RELEASE**

November 17, 2005

Sally Steele, Development Director  
252-393-8185  
[sallys@nccoast.org](mailto:sallys@nccoast.org)

## **Katrina Emergency Tax Relief Act of 2005: Tax Benefits for Donors to All Qualified Charities**

In September 2005, new legislation was passed providing many tax benefits to people and businesses affected by Hurricane Katrina. This legislation also allows temporary tax benefits to anyone making a contribution to a qualified charity between August 28 and December 31, 2005. Gifts do not have to relate to hurricane relief. There is no minimum or maximum gift amount to qualify.

In a statement issued on September 20th, Senator Charles Grassley, chairman of the Senate Finance Committee, summarized the intent behind the inclusion of broad charitable giving incentives in KETRA as follows: "We also need to make sure the national economy stays strong in light of high energy prices and other uncertainties. Also, with many of the charitable provisions in the tax bill, our goal is to encourage charitable giving outside of (Hurricane) Katrina relief to prevent the rest of the nation's charities from seeing a downturn in giving as they did after September 11th."

The North Carolina Coastal Federation (NCCF) is a qualified charity. What does this mean for our donors?

### \* Increased AGI Limit

Through December 31, 2005, individuals can make cash gifts to NCCF and deduct those gifts at up to 100% of their adjusted gross income ("AGI") rather than the usual 50% of AGI limit. The usual 30% of AGI limit still applies to gifts of appreciated assets. The usual 10% of income limit for gifts from corporations is waived but only for gifts directed to hurricane relief.

### \* Suspension of 3% Reduction of Itemized Deductions

KETRA suspends the "3% reduction of itemized deductions" that penalizes some "high income" donors. Normally, donors who earn more than a certain amount of income may lose a portion of their tax deductions for charitable gifts (3% times the amount of income over \$145,950 for 2005). Other itemized deductions (e.g. mortgage interest, state taxes) are still subject to the 3% reduction.

### \* Selling Securities or Other Assets

In a few cases, KETRA may actually make it advantageous for donors to sell "slightly" appreciated (or depreciated) securities or other assets, and donate the cash proceeds to NCCF. For appreciated assets, the gain incurred on the sale of the asset will be taxed at a 15% federal capital gains tax rate but the donor's gift deduction may reduce the donor's ordinary income, which is taxed at rates as high as 35%. In other words, this strategy may help some donors save an extra 20% at the same "out of pocket" cost. For depreciated assets, some donors may want

to (a) sell the asset, (b) capture the capital loss to offset other gains and (c) donate the cash proceeds to NCCF to reduce taxes.

\* Gifts Funded by Tax Deferred Assets

KETRA will allow some of NCCF's donors to consider gifts funded by distributions from IRAs and other retirement accounts (or other tax deferred assets such as U.S. Savings bonds, deferred income, accounts receivable) by allowing a "wash" of the income tax liability. Generally, this option should only be considered by donors who are at least age 59 ½ and who will not need these assets in the future. This will be most attractive for donors who live (a) in a state that has no income tax (e.g. Florida, Texas, Washington) or (b) in a state that allows a charitable deduction for state income tax. A few states give no state income tax deductions for charitable gifts or otherwise limit the state income tax benefit for IRA or retirement account withdrawals (e.g. Indiana, Massachusetts, Michigan, New Jersey and Ohio) and this creates a greater "cost" for a donor funding a gift from a tax deferred asset.

\* Funding a Charitable Annuity

Cash gifts made to NCCF to fund a charitable gift annuity (a type of "life income gift" that produces a deduction and current or deferred income) also appear to meet all requirements of KETRA.

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Cashing Out Real Estate Gains

Interest rates are beginning to rise - it may be time to "cash in" some real estate gains. The Federal Reserve Board has raised interest rates three times over the past few months. In recent years, low interest rates have helped fuel record growth in new home construction and real estate investments. But, if interest rates continue rise, gains on property investments may reverse course. NCCF's donors can "cash out" a portion of their investment gains in real estate in a number of ways, such as selling appreciated property (tax-free) in a charitable trust or by giving NCCF a partial interest (e.g. 30%) in the property before the sale to help offset taxable gains on the interest they retain and sell (e.g. 70%). There are some costs when donating real estate - the property must be appraised for the donor's tax deduction, an environmental review may be needed and a deed must be prepared - so most charitable gifts of real estate tend to be large enough

for the donor to justify those costs.

Information was provided in part by Duke University.

This information is not intended to be considered legal, tax or financial advice.

Please consult with your tax preparer or tax advisor to see if KETRA may offer tax advantages to you.

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***About the North Carolina Coastal Federation:  
"Citizens Working Together for a Healthy Coast"***

*The North Carolina Coastal Federation (NCCF) is the state's only non-profit organization focused exclusively on protecting and restoring the coast of North Carolina through education, advocacy and habitat restoration and preservation. NCCF headquarters are located at 3609 Highway 24 in Ocean between Morehead City and Swansboro and are open Monday through Friday from 8:30 am to 5 pm. The NCCF also operates regional offices in Wilmington and Manteo. For more information call 252-393-8185 or check out NCCF's website at [www.nccoast.org](http://www.nccoast.org)*