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Why Give Securities To Charity Instead Of Cash?

Want to make a sizable donation to your favorite charity? Of course, you could write out a big, fat check to the organization and claim a current tax deduction for your generosity. But you might fare even better, when taking taxes into account, by donating securities that have appreciated in value. As a bonus, you won't have to sell anything or dip into your cash to pay for the gift.

There's a simple tax incentive for donating stock rather than cash. If you write a check, you generally can write off the exact amount on your federal income tax return, subject to an overall charitable limit of 50% of your adjusted gross income (AGI) for the year. However, if you donate securities, you can deduct the fair market value (FMV) of the investments on the date of the contribution and avoid being taxed on the profit you would have made if you'd sold that holding.

In other words, you (and your charity) would benefit from the stock's appreciation without being taxed on it. It's as if your gains never occurred—except for the tax break you would get to enjoy.

But this works only if you've held an investment for more than a year. That's the definition of "long term" for calculating taxes on capital gains. With donations of stock that would have produced a short-term gain if you had sold it, your deduction is limited to your basis in the stock, which is usually what you paid for your shares. So there's no tax reward for giving away stock you've acquired within the year, no matter how much its price may have increased.

Let's take a look at two hypothetical examples to see the tax difference.

Example 1: Suppose you acquired ABC Co. stock nine months ago for $10,000. The stock is now worth $15,000. If you donate the ABC stock to a charity, your deduction is limited to your basis, or $10,000. There's no tax benefit from the $5,000 of appreciation in value. In fact, you would be giving that away for nothing.

Example 2: Suppose you acquired XYZ Co. stock two years ago for $5,000 that is now worth $15,000. In this case, if you donate your XYZ shares to charity, your deduction is based on its FMV, or $15,000. You would get to deduct the entire $15,000 even though you only paid $5,000 for the stock.

These rules lead to guidelines that can help you decide which investments to donate. For tax purposes, it's generally best to give the long-term holdings that have gained the most in value. But it makes little tax sense to donate stock that has moved up only a small amount, especially if you've owned it for a year or less. These differences may be especially important

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Parents Working At Home: New Tax Break May Be On The Way

New legislation introduced in Congress could benefit parents who work from home. The "Working Parents Home Office Act" would allow taxpayers to claim home office deductions while also using the space for incidental child care. For instance, the law would allow a self-employed entrepreneur to deduct costs even if he or she keeps a crib in the office. Under current law, that would disqualify the deduction.

To qualify for home office deductions now, you must use the space regularly and exclusively as your principal place of business or as a place where you normally meet customers, clients, or patients. Furthermore, if you are an employee of a company, the home office must be used for your employer's convenience.

Typically, this allows deductions for self-employed individuals and small-business owners who don't have another office. The new legislation would allow the tax break for people who watch young children while they work from their homes.

This proposed change would follow another liberalization of the rules on home offices. Beginning in 2013, taxpayers have been allowed to use a streamlined method to compute home office deductions. The deduction equals the square footage of the home office multiplied by $5 per square foot up to a maximum of $1,500. However, you may find that the traditional method produces larger deductions. Assess your situation at tax return time.

Colleen Rob Krista

What To Do After Your Bucket List

You hear a lot about how much money you should save to live the lifestyle you desire when you retire. But equally important, and maybe even more so, is the question of how you are going to live in retirement.

After you have checked off all of the items on your bucket list and taken all of the trips you can afford, how do you spend the rest of your time (which now is all leisure)? This happens to be a question some people overlook as they enter their retirement years, but it is critically important for pre-retirees to consider.

People are living longer these days, so you may be looking at a retirement period of 20 years, or even more. You will have a lot of leisure time. A long retirement period can take you into the advanced elderly years, a time when many retirees are physically unable to work part-time, serve as volunteers, or even keep up with their gardening. And watching TV, playing computer games, and emailing your friends and family can get boring when you do it all day—for a few years.

So, what can you do?

One answer is to move to a retirement community. This definitely could be a consideration when planning your retirement. Retirement communities are designed to alleviate a boring (and life-shortening) lifestyle. Found throughout the United States, they often are located close to medical facilities—another important consideration because you probably will require increased medical attention as you grow older.

Many people entering their retirement years want to remain near family members. So if you're considering a retirement community, you may want to look somewhere that's close to much of your family.

Six other things you may want to consider if you choose to move to a retirement community:

1. Facilities. What does the community offer in addition to the omnipresent community clubhouse? Many communities feature activities and facilities designed especially for retirees, such as swimming pools, tennis courts, bocce courts, arts and crafts courses, photography clubs, home-state clubs, woodworking shops, computer rooms, card rooms, bingo games, movies, little theater, community dinners, and special events. Some even provide golf courses.

2. Fees and taxes. Make sure you are financially comfortable with homeowner association fees, insurance rates, and property taxes (if applicable).

3. Resale value. What is the real estate sales history of the community? Have home and condo valuations generally trended upward during the years of its existence? Have home and condo prices recovered somewhat from the real estate bust of a few years ago?

4. Shopping. Is the community located near stores and shopping centers?

5. Restaurants. A lot of retirees like to eat out as frequently as they can afford. Are good restaurants conveniently located? Do many of these restaurants offer "early bird" menus at a discount?

6. Transportation. Some senior citizens may choose to give up their drivers' licenses as they enter the upper years of old age. Having public transportation available could be an important consideration.

And finally, what about the question of how much money you should save for your retirement? A better question may be: How much will you need to pay your retirement expenses each month? We can help you with that answer. And we can help you plan the retirement lifestyle choices that best suit you. ●

Fly Below The Tax Radar At Year-End

The IRS often zooms in on upper-income taxpayers, especially those who buy and sell a lot of investments, and with good reason: These taxpayers have the most to gain or lose because the stakes are high. However, you can reduce the chances for an unhappy tax landing by flying below the "tax radar."

There are three key tax thresholds to think about in 2014. If you stay below those lines, you're more likely to end up with a reduced tax bill. Let's examine each one:

1. Ordinary income tax rates. Under the graduated tax structure, there are seven tax rates that range from a low of 10% to a high of 39.6%. Even if you're in the top tax bracket, you benefit from the lower brackets, but once your income rises into the top bracket—in 2014, when it exceeds $457,600 as a joint filer or $406,750 as a single filer—any additional taxable income will be subject to the 39.6% rate. Deferring some income to 2015 could help, especially if you expect to be in a lower tax bracket next year.

2. The Pease and PEP rules. Under the Pease rule, named for the congressman who introduced this provision, most itemized deductions are reduced by 3% of the amount that your adjusted gross income (AGI) exceeds a dollar threshold, though the total reduction can't be more than 80%. Personal exemptions are reduced by the PEP (personal exemption phaseout) rule by 2% for each $2,500 (or a portion of that amount) that your AGI goes over the same threshold—$305,050 of AGI for joint filers and $254,200 for single filers.

3. The NII tax. There's now a 3.8% surtax that applies to the lesser of your "net investment income" (NII) or modified adjusted gross income (MAGI) that exceeds an annual threshold. Although NII includes most income items, distributions from IRAs and employer retirement plans are

5 Tips For Getting Your Kids Into College

Saving money for college is a daunting proposition. But there's another big challenge—making sure your high school sophomore or junior is doing the right things to improve the odds of being admitted to college. Here are five tips for helping bolster your children's academic standing:

1. Selecting the right classes. The courses your child chooses do make a difference, particularly if the goal is to get into a top-flight college or a particular field of study. For instance, if your child wants to enter one of the top U.S. engineering programs—at Georgia Tech, Purdue, MIT, or another leading school—he or she will need to have taken at least trigonometry and pre-calculus.

College admissions counselors base acceptance decisions on high school coursework completed through the junior year. They'll also want to see a list of classes a student will be taking as a senior. You can help by finding out what courses are required, or preferred, by the colleges on your child's wish list.

2. Test preparation. Whether your child is taking the SAT, the ACT, or both, doing well on these tests is likely to require considerable preparation.

Getting ready can take many forms, from buying a guide that walks kids though the exam and gives test-taking strategies, to completing online SAT practice tests from the College Board, to signing up for a formal SAT/ACT preparation course. At the very least, the published guides and online samples can be a good way for students to become familiar and comfortable with the test format.

If you think your child will need more intensive help to ace the test—many bright, talented students aren't great test-takers—you may find that coursework, tutors, and anxiety-coping strategies can be effective.

3. Summer experience. For many high school students, the summer between their junior year and senior year is their last opportunity to gain real-life experience that is relevant to their career interests. It also can provide excellent material for college essays and personal statements that students may be asked to explain why they're interested in a particular college or area of study.

Students might gain experience through a job, an internship (paid or unpaid), or they might interview people in fields that interest them.

4. Vacation with a purpose. A summertime family trip could be a great time to visit prospective colleges. While you're there:

- Pick up copies of the student newspaper to find out what's going on at the school.
- Ask questions of students and residents to learn what the climate will be like when it's not summer.
- Seek out the professors in your child's areas of interest. Faculty schedules in the summer are often less frantic than during the academic year.
- This is also an ideal time to make a positive, lasting connection with an admissions counselor. The summer pace is slower for the admissions staff, too, and they have more time to spend with families.
- While visits are important, it's easy to fall in love with the campus of a college that may be out of reach for a particular student. On the other hand, there's nothing wrong with aiming high, and working harder to get into a dream school could be a benefit no matter what.

5. Advance planning for the application process. The more students can find out about the colleges they want to attend, including application requirements, the better prepared they may be to throw themselves into a very selective application process. Two of the most intensive aspects of that process are essays and letters of recommendation.

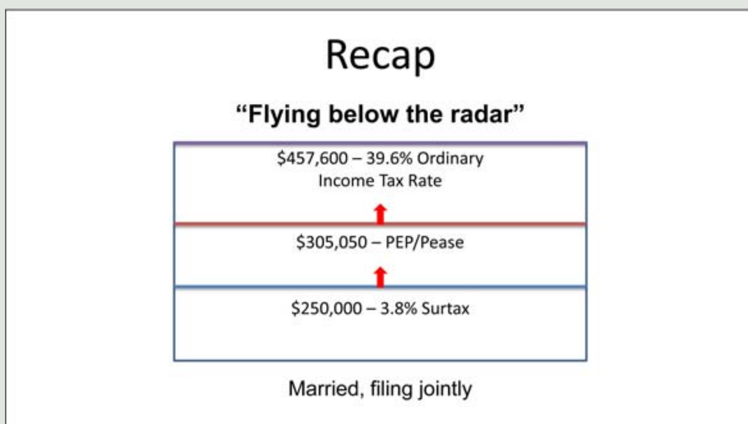
There's no "one-size-fits-all" essay. Many colleges now require essays of various lengths and topics in addition to the essay prompts on the Common Application. Here, too, preparation can be very helpful, with students thinking about what they want to write and taking the time to develop an effective essay.

As far as recommendations go, keep in mind that the best teachers are likely to be in great demand, and it's important to get a request in early.

Of course, your part in this process, beyond helping your student prepare and not miss important deadlines, is to make sure you're financially ready to foot part or all of the college tab. Good preparation isn't just for the kids. ●

exempt. Nevertheless, the money you take from such plans still increases your MAGI for this calculation. The MAGI limit is $250,000 for joint filers and $200,000 for single filers. And while many tax law provisions rise when inflation does, this one doesn't.

Develop a year-end plan that is geared toward staying below these thresholds or at least as close to them as you can manage. In some cases, such as with the Pease and PEP rules or the NII tax, you may be able to avoid the tax complication altogether. Happy flying! ●



Are You Confident About Retirement?

Every year, the Employee Benefits Research Institute (EBRI), an independent research firm, gauges the confidence levels of retirement-savers. The results of its 24th Retirement Confidence Survey may make you sit up and take notice.

What jumps out is that an astounding 36% of current workers say they have saved $1,000 or less for retirement. Naturally, this figure is skewed somewhat by younger employees, of whom about half have less than $1,000 in savings, but 24% of the respondents over age 55 still haven't scaled the four-figure mark. At the same time, 42% of workers over age 55 say they've saved at least $100,000, while 23% in that age category have socked away more than $250,000.

As far as the rest of the report goes, Americans are becoming slightly more confident about retirement saving, although there's still plenty of cause for concern.

According to the 2014 survey, based on interviews with 1,000 current workers and 500 retirees, 18% of the current workers were "very confident" they would have enough money to live on comfortably throughout their retirement. That's up from a record low of 13% lasting from 2009 through 2013. Among retirees, the "very confident" figure was 28%, higher than the 18% figure last year.

Significantly, EBRI noted that the numbers haven't bounced back all the way since the downturn year of 2008. In that watershed year, 27% of current workers and 41% of retirees were very confident about retirement. Meanwhile, the percentage of current workers and retirees who are "not at all confident"— 25% and 17%, respectively—essentially hasn't budged since the downturn.

Almost all of the increases in confidence occurred among house holds with incomes above $75,000. For households with lower incomes, daily expenses don't seem to leave much room for savings. Coincidentally, 53% of respondents in the survey cited a high cost of living to explain why they can't or won't save more.

Here are some other noteworthy findings:

- Having a plan helps. Upper-income respondents were much more likely to participate in a 401(k) or other employer-sponsored retirement plan. The mere presence of such a plan seems to boost confidence in retirement saving.
- Many expect to work part-time in retirement. Almost two-thirds of current workers think they'll work during retirement to make ends meet. But only 27% of retirees say they've been employed after retiring. The idea of working part-time in retirement is a common misconception.
- Count on a calculator. For respondents with an employer plan, EBRI used the Department of Labor (DOL) Lifetime Income Calculator to estimate monthly income in retirement. The DOL argues that this motivates workers to increase savings.

What about you? If you're not confident in your ability to save for retirement, we can help you create a realistic plan. ●

Give Securities To Charity?

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to donors in high tax brackets.

If you donate stock that has lost value, your deduction will be based on the stock's FMV. In this case, it usually makes sense tax-wise to sell the stock first and then donate the proceeds to charity. This way, you can claim a capital loss that you could use to offset capital gains from other securities sales.

There are a few other tax wrinkles to consider when you're thinking about giving securities to charity. That 50%-of-AGI limit applies to all gifts during the year, whereas charitable gifts of property are limited to 30% of your AGI for the year—though you can carry over any excess to subsequent tax years. In addition, some itemized deductions for high-income taxpayers, including those for charitable contributions, may be reduced by the "Pease rule." Generally, this reduction is equal to 3% of deductions exceeding an annual threshold amount (indexed for inflation), but the reduction is capped at 80% of your total deduction. For 2014, the threshold for the Pease rule is $254,200 of AGI for single filers and $305,050 for those who file jointly.

Finally, there's more at stake here than just taxes. Investment factors, too, come into play, and it's usually better to choose stocks that you feel may have reached peak value than those that may continue to rise. You also may want to keep stocks that pay solid dividends. And there could be consequences relating to your estate plan and assets you might want to leave to your heirs instead of donating to charity.

The best approach is to consider all the significant factors before giving securities to a charity. We can help you coordinate your decisions with other aspects of your investment and estate plans. ●

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