

KETRA GIVES NFPS AND DONORS LONG-AWAITED OPPORTUNITIES

By Karla Van Drunen Littooy, CFRE - The Alford Group, Vice President,
AFP Chicago, Board Member & Government Relations Chair

Hurricane Katrina spawned emergency federal tax legislation that provides a great - but brief - window of opportunity for every not-for-profit organization. Until December 31, 2005 the Katrina Emergency Tax Relief Act (KETRA) provides donors tax incentives to give. Moreover, it provides savvy development professionals a chance to demonstrate to lawmakers the potential long-term value of such legislation.

While yearning for passage of the CARE Act, not-for-profit professionals have a 4 month window to prove its potential by maximizing provisions in KETRA. On September 23, 2005 President Bush signed into law H.R. 3768, Katrina Emergency Tax Relief Act of 2005 – now becoming known as KETRA. KETRA has a sunset provision of December 31, 2005, thus now is the time to demonstrate to donors and boards the new options made possible by this law. Working together, AFP International and AFP Chicago will encourage the press to highlight success stories which KETRA enabled.

Senator Grassley, who leads the Senate Finance Committee and has been crafting legislation to regulate not-for-profits and change charitable provisions in the IRS code, advocated KETRA. He highlights how it serves Katrina victims with short term aid as well as protection from “undeserved trouble” with the IRS. Sadly, the Senator has not mentioned how similar some of the bill’s elements are to the CARE Act (S. 1780 of 2005 and S. 272 of 2004) nor the ways in which it stimulates and affirms Americans’ charitable spirit.

The Panel on the Nonprofit Sector issued a statement supporting this relief package and also urged Congress to “focus on incentives that will encourage increased giving and volunteering not just for immediate disaster relief, but also to support the ongoing services and programs of charitable organizations that are an essential part of all communities.”

AFP has affirmed and praised Congress’ recognition of the charitable sector’s vital importance in responding to disasters such as Hurricane Katrina; they have also pledged to work with members of Congress to extend the incentives beyond the end of 2005.

Each of us – as development and not-for-profit professionals – can help to underscore the value of the CARE act by aiding donors, organizations and our boards to make the most of the KETRA legislation. See the bottom of this article for strategic, real-life applications of these tax provisions.

This brief article will focus on the key incentives for individual donors contributing to charities. Should you wish information on incentives for corporations and volunteers, please see the bill at <http://thomas.loc.gov/>.

Key Elements to Stimulate Philanthropy

Charitable Gifts from QRPs allowed without penalty

KETRA allows distributions from qualified retirement plans (QRPs) -- **not just IRAs** -- to be used for charitable purposes and waives any penalties. While the IRA rollover familiar to AFP members was stripped from the bill, KETRA raises the limits for charitable deductions relative to Adjusted Gross Income (AGI) (see below for details); the immediate impact for income tax purposes is very similar to the rollover.

For donors who have yearned to bypass the income tax due on assets in QRPs and/or seen the QRP as an asset “out-of-reach” for their charitable giving, this is a timely opportunity.

AGI adjustments for CASH Gifts increased to 100%

For **cash** gifts made between August 28, 2005 and December 31, 2005 donors may adjust their AGI by 100% for income tax purposes. (Prior to this legislation, 50% of cash gifts and 30% of gifts made with appreciated assets could be deducted.)

KETRA does not require that a gift be designated to hurricane Katrina relief in order to qualify for this AGI adjustment. All organizations qualifying as charities under Section 170(b)(1)(a) of the Internal Revenue Code are covered by KETRA.

Thus donors with a high asset base and modest incomes have the potential to offset AGI (and thereby by pass income tax) with charitable gifts made in cash and made prior to December 31, 2005.

Itemized Deduction (Schedule A) limitation suspended

Prior to KETRA, married taxpayers who filed jointly and had an AGI equal to or greater than \$145,950 were required by IRS code to limit their total itemized deductions – including charitable contributions – by 3%. (Each tax filing status has a separate, relative AGI threshold, please see IRS publications for details.) Thus donors in these AGI brackets received less income tax benefit for their charitable giving than donors with lower AGI.

Thus, a charitable gift – made in cash – and made before December 31, 2005, by individuals in these upper AGI brackets, is more “tax-wise” than it has been in the recent past.

Real-life application of KETRA

Donors who have these characteristics can be motivated by KETRA’s provisions:

- Desire to avoid paying income tax on assets in QRPs.
- Desire not to burden their heirs with income tax on assets in QRPs.
- Have declined a gift request in 2005 because “my accountant says I can’t give any more this year.” (The accountant’s assessment may change due to the increased / suspended limits.)
- Have declined a gift request because they do not have income or non-QRP assets sufficient fulfill the gift.
- Have been “considering” a gift request for an extended period. (The time limit of December 31, 2005 in conjunction with benefits of KETRA legislation, may motivate the donor to finalize his/her gift.)

What you might ask your donors/prospective donors to do:

- Prepay an existing pledge.
- Make a “stretch” gift using QRP assets.
- Use QRP assets to fund a charitable gift annuity. (The CGA appears to be the one life income gift possible under KETRA because the assets are immediately and irrevocably transferred to the charity.)

Benefits to the Donor:

- Reap the income tax benefit and see his/her gift put to work immediately.
- Maximize the income tax impact of 100% adjustment to AGI
- Maximize the income tax impact of the suspension on limits to Itemized Deductions (Schedule A).

Help AFP to continue to advocate for the CARE Act by sharing your KETRA success stories with the AFP chapter at info@afpchicago.org.

Resources in writing this article include:

www.afpnet.org

www.donorsforum.org

www4.law.cornell.edu/uscode/html/uscode26/usc_sec_26_00000170----000-.html

www.nptimes.com

www.sharpenet.com/ketra/

<http://thomas.loc.gov/>