



# THE HOPKINS PLANNER

A NEWSLETTER ON FINANCIAL, ESTATE, AND GIFT PLANNING

## Dear Friends,

As the saying goes, life is a journey, not a destination.

On that journey, most of us look toward what lies ahead, with particular personal, financial, and charitable objectives that vary, depending on our age and circumstances in life. We also recall where we've been, and these memories influence our future direction.

I hope that your affiliation with Johns Hopkins is one of your special memories. If so, what could be more pleasurable than sharing your memory with others? Wouldn't it be wonderful if you could ensure that others would experience your same joy?

This issue of our newsletter explores several year-end strategies that can act as your road map. Read on to learn how you can minimize your tax burden and increase the amount available to meet your charitable objectives.

Please call me if you would like to discuss a particular strategy. It would be a pleasure to explain how you can merge your path with Johns Hopkins' in perpetuity.

Sincerely,

Bernard J. Davisson II  
 Senior Director of Gift Planning



*Sweet remembrances of Hopkins swing donors to make lasting contributions.*

## Personalized Illustrations: Visit Our Planned-Giving Web Site

We invite you to visit our Web site, [www.jhu.plannedgifts.org](http://www.jhu.plannedgifts.org), designed as an educational service for alumni and friends. You may also be interested in receiving a personalized illustration of the benefits of making a particular gift. We are happy to respond to your request quickly and confidentially.

To request a personalized calculation, simply click on "Request a Calculation" and complete the form. We will be pleased to assist you, with no obligation on your part.



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**We Are Here to Help**



## Plan Ahead for April 15: Fine Tune Your Taxes at Year End

**W**ise financial planning is critical if you hope to have enough resources to pay for your children's educations, help them with their weddings, and still have enough left to enjoy a comfortable, secure retirement. Even with the best laid plans, obstacles occur. One such obstacle occurs every year—April 15, when your taxes are due. If you're like many of us, you probably have a grumble or two about the toll that Uncle Sam is taking on your assets—and have concern about whether or not you will have enough money left to fund your objectives.

The truth is, by implementing your financial strategies now you can significantly reduce your taxes and keep more in your pocket for your personal use. If you have philanthropic leanings, you can also help ensure Johns Hopkins can continue to pursue its mission.

### Less Income, Less Tax

The goal is to maintain or improve your financial situation. Here are some effective strategies.

**Strategy One: Increase your deductions.** Some of the easiest ways to reduce your taxable income are to:

#### Pay as much interest as feasible on a mortgage or home-equity loan before December 31.

Generally, interest paid on up to \$1,000,000 of total mortgage-acquisition debt on your first and second homes is deductible. In addition, you can deduct interest on as much as \$100,000 of home-equity loans. By contrast, none of the personal interest that you pay on credit cards, auto loans, and the like is deductible.

#### Decrease the tax on your mandatory IRA withdrawals with a charitable gift.

Funds that have grown tax-free for years within your IRA (or other qualified plan) are *fully* taxable when they are distributed. Consider making a charitable gift to Johns Hopkins to help soften that tax hit. New legislation for 2005 makes this especially beneficial. Read on for more information.

### Expanded limits for 2005—make a larger gift to Hopkins

As a result of Hurricane Katrina, new legislation has been signed into law that expands the deductible limit for gifts of cash from 50% of your adjusted gross income (AGI) to 100% of your AGI for the remainder of 2005. To be eligible for this higher deduction limit, gifts must be made in cash between August 28 and December 31. Another benefit: Such qualified cash gifts will not be subject to the 3% reduction rule applicable to itemized deductions. In general, a taxpayer's itemized deductions must be reduced by 3% of the amount by which AGI exceeds \$145,950. Individual contributions to public charities, whether or not the charity is engaged in Katrina relief, will qualify.



*Russell Hales M.D. '05, Ellen Anthony, and Gregory Czusman M.D. '06. Russell and Greg were the 2004/2005 recipients of the Ralph F. & Ellen Anthony Medical Scholarship Fund, established by her and her late husband, who was a former member of the National Council for Johns Hopkins Medicine.*

### 2005 gift opportunities with IRAs and qualified retirement plans.

Because of the increase in the deduction limit, taxpayers over the age 59½ have a special opportunity for the rest of 2005 to withdraw funds from their qualified retirement plans and IRAs and make additional contributions to charity. Such withdrawals will be added to adjusted gross income and will be fully deductible, thereby eliminating any tax on the withdrawal. Clearly this plan would appeal only to those who have sufficient assets to meet their personal needs.



**Roderich (Rick) M. Carr, ENGR '78, president, The Johns Hopkins Alumni Association**

This plan is not without potential pitfalls. The increase in adjusted gross income—because of the withdrawals—could adversely affect the available deduction for medical and casualty losses and for personal exemptions.

And while the charitable deduction for the contributed withdrawals is not subject to the 3% reduction rule for itemized deductions, the increase in adjusted gross income could result in the reduction of other itemized deductions and personal exemptions.

We urge you to consult your tax advisors about both the optimum amount to contribute in 2005 and the advisability of making contributions from your IRAs or other qualified plans.

**Strategy Two: Generate more tax-free income.** Try one of these approaches:

**Buy municipal bonds.**

You may discover that a lower tax-exempt return provides more income than a higher, fully taxable return.

**Establish a charitable gift annuity with Johns Hopkins.**

A charitable gift annuity is simply a contract between a donor and a charity. In exchange for a gift such as cash or securities, you will receive a guaranteed stream of income for life from Johns Hopkins. Some of the income may be tax-free over your life expectancy. The older you are when the gift annuity begins, the more tax-free income you receive. When you factor in the tax-free income and the charitable deduction, your tax savings can be significant.

**Charitable example:** Ruth, 70, makes a cash contribution of \$10,000 in exchange for a charitable gift annuity with Hopkins. In return, she receives an immediate charitable income-tax deduction of \$3,866 to help offset her current tax bill. She also receives an annual annuity of \$650 for life. Of this amount, \$264 must be reported as ordinary income but the remaining \$386 is treated as a tax-free return of principal over her actuarial life expectancy—15.9 years for Ruth.

<b>\$10,000 Cash Gift Annuity</b>			
Age	Annuity Payment	Tax-Free Portion	Charitable Deduction
60	\$570	\$291	\$2,977
65	\$600	\$329	\$3,447
70	\$650	\$386	\$3,866
75	\$710	\$454	\$4,366
80	\$800	\$547	\$4,855

**Strategy Three: Reduce or eliminate capital gain.** If you have appreciated property held for more than a year, a sale could generate substantial tax on the capital gain (at rates as high as 15%). Instead, consider the following options.

**Delay the timing of the sale of appreciated property.**

By delaying the sale until January 1, 2006, you defer the capital-gain tax a whole year. However, if the property—whether appreciated stock, real estate, etc.—is in danger of dropping in value, it may be more beneficial to sell now in spite of the gain.

**Make a charitable gift to Hopkins.**

Although most people think of giving cash when they think of making a gift to Hopkins, you may generate even better benefits if you give long-term appreciated property. You qualify for a charitable deduction for its full fair-market value on the date of your gift. Even if the value of the asset does fall in the future, your deduction remains the same.

**We Are Here to Help**

To assist in your planning, we would like to send you a complimentary copy of our new booklet, *Charitable Tax Planning for 2005: Looking Ahead to April 15*. To request your copy of this handy taxpayer's companion, simply return the enclosed card or call our office at 1-800-548-1268.

# Luda and Dick Murphy's Gift Promotes Eastern European Democracy

For Luda Murphy, it all started with a scholarship.

The Ukraine native came to the United States as a displaced person uprooted from her homeland by World War II. After graduating from Hartford Public High School in Connecticut, she was awarded a full-tuition academic scholarship to study economics at the University of Connecticut. From there, academic fellowships took her to the Paul H. Nitze School of Advanced International Studies (SAIS), where she received an all-expenses paid year at the Bologna Center and then tuition at the school's Washington, D.C. campus. While studying there for her master's degree in international relations, with a concentration in Western Europe, she met her husband, Dick Murphy, SAIS 1958. Dick received his B.A. in history at Yale University and his M.A. at SAIS with a concentration in East Asia.



*Luda and Dick Murphy*

"A higher education was possible for me only because of others' generosity," says Mrs. Murphy, SAIS 1961. "I always believed that if it were ever possible, I would like to reciprocate."

Recently, the Murphys set up a charitable remainder unitrust to fund the Ludmilla K. and Richard W. Murphy Fellowship, an annual partial-tuition award for one student from the Bologna Center to complete a master's degree in international relations at the SAIS campus in Washington, D.C. Fellows must plan to return to their home country to work in public service and can come from a list of Eastern European nations, with a preference for Ukraine.

"Dick and I feel very strongly that the best thing that can be done to promote democracy in Eastern Europe is to expose young people of the region to western ideas and practices," says Mrs. Murphy, a retired economist for the U.S. Department of Labor.

Meanwhile, their planned gift provides the couple an ongoing income stream that is a fixed percentage of the value of the trust each year. Now that Johns Hopkins is managing their unitrust, "our money is extremely well invested," says Mr. Murphy, who is semi-retired from a lengthy public-policy career in the public, private, and nonprofit sectors. And, the unique dividends create "a win-win situation," he says. While the Murphys enjoy the income from the unitrust, they also witness the fruits of their philanthropy through an outright gift they made to establish the fellowship.

"It's wonderful to be able to give and to enrich others' lives, the way SAIS enriched ours," Mr. Murphy said.

This spring the couple attended the graduation of Cristina Clare, the first scholar to receive their fellowship. During Ms. Clare's

studies, they entertained her in their home at a celebration for Ukraine's Orange Revolution, and learned more about the Romanian woman's plans for a career as a consultant for emerging-market countries.

"Many people leave money when they die," Mrs. Murphy says. "It's wonderful to donate while living and see the results of one's generosity."

You should consult your attorney about the applicability to your own situation of the legal principles contained herein.

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