



THE HOPKINS PLANNER

A NEWSLETTER ON FINANCIAL, ESTATE, AND GIFT PLANNING

Dear Friends,

An annual checkup can help ensure robust physical health and alert you to any problems that need to be corrected. You can reap the same benefits for your financial health with an annual “checkup” at tax time.

As you ponder your tax form, ask yourself such questions as: Have I taken advantage of all strategies to reduce capital gain? Have I used tax-advantaged programs to put away enough for an enjoyable retirement? Finally, have I reduced my gift and estate taxes with gifts to my family, friends, and charities such as Johns Hopkins?

Just as your doctor may offer tips on reducing your cholesterol or blood pressure, this issue of *The Hopkins Planner* offers tips for reducing your taxes. Some of the most effective ways are through a carefully considered charitable gift to Hopkins. Besides holding on to more of your money, you have the satisfaction of supporting a cause in which you believe.

To help with your planning, we would like you to have a copy of our free booklet, *Givers Guide to Federal Taxes*. To request your copy, simply return the enclosed card or call our office. We would be happy to discuss with you these means of helping you reduce your taxes and support the mission of The Johns Hopkins Institutions. Please call our office or e-mail us.

Sincerely,
The Gift Planning Team

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Tax-Planning Checkup: How Did You Do?

April 15 is more than just a day of reckoning with the IRS. It is a day of assessing how effective you were in planning your tax strategy for the previous year.

In this issue of *The Hopkins Planner*, we invite you to take our *Tax-Planning Checkup*. Answer the questions, add up your score, and see how you did. We hope you have a little fun with this exercise, and we hope it might bring to light some opportunities to improve your outcome this year.

Capital-Gain Strategies

How did your investments fare last year? Did they follow the trend of most of the major indices and go up in value, or did they lag behind? As strange as it may seem at first, how your investments performed and the impact on your tax picture are two completely separate matters.

Gain and loss are just paper transactions until you actually sell an investment. When you do, gain and loss show up in your tax picture. Because you control the timing of buy-and-sell decisions, you have significant control over the impact these transactions have on your taxes.

Checkpoint 1 If you sold losing stocks before year-end to generate a realized capital loss, give yourself 10 points.

Stock sold at a loss offsets the gain on stock sold at a profit and reduces your tax. Even if you do not have gain to offset, you can use loss to offset up to \$3,000 of ordinary income. **Caution:** If you buy the stock back within 30 days, you cannot recognize the loss.



• **Checkpoint 2** If you waited until after the end of the year to sell a stock at a gain, give yourself **10 points**.

Sometimes delaying a sale just a few days can push the tax consequences into the next tax year. Again, don't let tax considerations alone dictate your decisions. If you believe a stock is sinking fast, it may be better to sell and deal with the tax consequences than to risk further erosion of the price of the stock.

Making the Most of Charitable Deductions

Of all the deductions that save you taxes, the charitable deduction is the most flexible. **Reason:** You have complete control over the amount and timing of your charitable gifts as well as over the choice of what kind of asset you will give.

• **Checkpoint 3** Give yourself **10 points** if you were able to claim a charitable deduction on your tax return.

If you itemize deductions, your charitable-contribution deductions generate tax savings proportional to your marginal income-tax bracket.

Example: Last year Phil made a \$10,000 gift to Johns Hopkins. Since Phil is in the 33% federal income-tax bracket, that gift saved him \$3,300 ($33\% \times \$10,000$) in taxes.

• **Checkpoint 4** If you accelerated this year's charitable gift into last year in order to reap the benefits of itemizing, give yourself **10 points**.



More than 54,959 individuals made gifts to Johns Hopkins during 2006.

If you typically find yourself close to but short of the standard-deduction threshold, you might want to consider doubling up on your charitable giving to realize the benefit of itemizing. Next year you can skip your gift without increasing your taxes because you will still be able to use the same standard deduction you would have used if you had spread your gift over two years.

• **Checkpoint 5** Give yourself **10 points** if you used long-term appreciated securities or real estate to make your charitable gift.

If you use long-term appreciated securities or real estate to fund your charitable gifts, you not only are able to deduct its full fair-market value but you also avoid recognizing or paying tax on the appreciation.

Example: Ruth G contributed stock worth \$30,000 that she had bought five years ago for \$10,000. If she had sold the stock, she would have faced a tax of \$3,000 on her \$20,000 gain ($\$20,000 \times 15\%$ capital-gain tax rate). If she had made a gift of stock, the \$30,000 gift would have produced \$10,500 of income-tax savings in her 35% federal tax bracket.

Taking Interest in Your Deductions

Even though "consumer" interest is not deductible, you can deduct mortgage interest on a loan secured by a personal residence in most circumstances.

• **Checkpoint 6** Did you obtain a home-equity loan to replace nondeductible consumer credit? If so, give yourself **10 points**.

Be sure to check with your advisors to be certain the interest on your home-equity loan qualifies for a deduction.

Securing Your Retirement

There are a number of retirement-planning options that allow you to deduct contributions and/or have your contributions grow free of current tax—and in some cases get tax-free distributions.

• **Checkpoint 7** Give yourself **10 points** if you made a contribution to a tax-advantaged retirement program last year.

Combining Objectives. It is possible to make charitable gifts that pay you an income for life—and often such plans can be arranged so that most or all of the income is paid after your retirement.

• Checkpoint 8 Add **10 points** to your total if you completed a charitable life-income gift last year.

Example: Gene and Mary, both 72, feel very secure with their assets, among which are \$100,000 in CDs. While Gene and Mary don't perceive a need to have access to the principal, the income the CDs generate does subsidize their lifestyle.

As loyal supporters of Johns Hopkins, they have expressed their desire to make a significant gift. However, they don't want to reduce their cash flow.

After conferring with their advisors and a member of our staff, Gene and Mary decide to put the proceeds of their CDs into a charitable gift annuity that will pay them \$6,000 each year, as long as either of them lives. This qualifies for an income-tax deduction of \$37,770.

In their 33% tax bracket, the deduction saves them \$12,464 in taxes. Invested at 5%, the tax savings will generate almost \$625 additional income each year, effectively increasing the total return from this plan to approximately 6.6%.

Reduce Taxes Through Giving

While a substantial increase in net worth is gratifying, it can bring with it hidden future challenges in the form of the federal estate- and gift-tax system.

Under current law, through 2008 each taxpayer is allowed a credit that offsets the transfer tax on \$2,000,000 of cumulative lifetime and death-time transfers. However, during life the amount exempt from gift tax is limited to \$1,000,000. In addition to these exemptions, certain transfers qualify for an annual exclusion, medical, or education exclusion.

• Checkpoint 9 Give yourself **10 points** if you made a tax-free annual-exclusion gift to one or more individuals last year.

Federal tax law provides a "bonus" in the form of a \$12,000 *annual exclusion* that doesn't count against these limits.

Using the gift-tax annual exclusion removes potentially taxable assets from your estate and passes the appreciation on those assets on to the recipient free of estate or gift tax.

Note: The exemption for the federal estate tax is scheduled to increase to \$3,500,000 in 2009, and the estate tax is scheduled to be repealed in 2010. However, absent specific action by Congress, the tax will return in 2011 at levels provided by the law in effect prior to the 2001 tax act.

• Checkpoint 10 Have you included charitable provisions in your estate plans? If so, give yourself **10 points**.

Charitable Gifts Escape Tax The actual cost of a gift in your estate to Johns Hopkins may be substantially less than it initially appears. **Reason:** Such gifts qualify for a charitable estate-tax deduction. This deduction can be as high as 45%, the amount of the current maximum estate-tax rate.

Summing Up

Based on our checkup, were you successful in your planning last year? The following chart may give you an idea of where you stand:

Points	Ratings
0 - 20	Plenty of opportunities to improve this year
30 - 50	Good start
60 - 80	Solid performance
90 - 100	Planning all-star

Send for Our Booklet

We hope you have enjoyed this exercise and found it beneficial. As you look to the future, we would like you to have a complimentary copy of our booklet, *Givers Guide to Federal Taxes*, to assist with your charitable planning. Just return the enclosed postage-paid card or call our office to get your copy.

Are you 70½ or Older? Before You Make Your 2007 IRA Withdrawals, Consider This Special One-Time Opportunity

If you are in this age group, the Pension Protection Act of 2006 presents a unique opportunity, until the end of 2007, for you to make a tax-free transfer (up to \$100,000) directly from your IRA to charity.

Please contact the Office of Gift Planning at 1-800-548-1268 to learn more about how this legislation might benefit you.

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

One Family, One Fund: A Father's Love of Books Lives Forever

Ln the Siegel family, two things are a big deal: reading and birthdays. The late Henry M. Siegel, A&S '47, was a newspaperman who loved the written word and helped teach his two sons, Michael, A&S '74, and Larry, to read before they attended school. Birthdays brought the family together over the years.

Henry died in 1996. "When my birthday came around after his death," says Shirley, his widow, "it was very difficult for me. My sons asked what I wanted to do, and I said 'nothing!'"

Since their father had always designated his annual Hopkins Fund contribution to the Sheridan Libraries, both sons made a birthday gift that year to the Libraries in their father's name. "When I heard about that, I really liked it," says Shirley, "and I didn't need any more



The Siegel family came together to create an endowment fund in memory of the late Henry M. Siegel.

things anyway. From then on, that's how they would celebrate birthdays, Mother's Day, and other occasions—making a gift to the Libraries."

Mrs. Siegel thought so much of supporting the Libraries that she established the Henry M. Siegel Library Endowment Fund for acquisitions and established a charitable gift annuity to fund it. "The annuity was

just what I needed at this point in my life," she explains. "I got a nice tax break, and now I receive a steady income that will never go down."

Michael also had close ties to the Libraries. "When I was on the Homewood Campus, I spent a lot of time on the "C" level of the library. A group of my friends met there every night, and a good deal of my education took place there," he says. Michael has decided to leave his entire estate to the endowment fund set up in his father's memory.

Although Larry did not attend Johns Hopkins, he also has decided to leave his entire estate to the fund. His wife, Helene, holds a masters in education from Hopkins and in 1976 completed a Certificate of Advanced Study in Education. "What appealed to us," Larry said, "was the power that could be achieved by combining three estates for a single purpose. We liked the notion that an upper-middle-class family could create the same level of impact usually associated only with wealthy donors. Instead of the library being able to purchase 10 or 15 titles a year from our fund, they'll be able to obtain 50 to 100. That is really going to make a difference."

All four family members appreciate the permanence of an endowed fund. Larry says, "I'm delighted to think that the name of Henry Siegel, a man who loved books his entire life, will be on Hopkins books and listed in the catalogue hundreds of years from now."

Shirley takes a broader view. "We've always been a strong family, and with all of us supporting this fund, we will exist as a family as long as Johns Hopkins exists—and that's a very long time!"

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