



# focus

year end 2010

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# Make noncash donations when cash flow is a problem

**M**any people want to support the causes and organizations in which they believe. Even so, donating cash while the economy remains shaky can be difficult. Fortunately, you can contribute noncash assets instead, such as stock, a vehicle, artwork or real estate. This allows you to continue helping your favorite charities while minimizing the impact on your cash flow — and potentially gaining significant tax benefits.

## Consider the tax consequences

Perhaps the biggest tax benefit of noncash donations is that you may be able to avoid capital gains tax that you'd owe if you sold the asset. For example, you can donate publicly traded securities you've held more than one year and both deduct the fair market value (FMV) and avoid capital gains tax. (See "Donating cash vs. stock" on page 3 for more details.)

If, however, you want to donate securities that have lost value since you purchased

them, you'll likely be better off selling them and donating the proceeds. Why? Because then you can potentially deduct both the loss and the donation on your tax return.

***The biggest tax benefit of noncash donations is that you may be able to avoid capital gains tax that you'd owe if you sold the asset.***

When planning your donations, also keep in mind that your charitable deductions are limited to 50%, 30% or 20% of your adjusted gross income for the year, depending on the type of asset donated and the type of organization receiving it. Any excess donations can be carried forward up to five years.



## Determine the donation's value

Although you can deduct the FMV of publicly traded stock you've held long term, that's not true for all property donations. For instance, if you donate securities you've held *short* term (one year or less), you can deduct only your basis (generally what you paid for the securities).

For vehicle donations, if the organization sells the vehicle, your deduction generally is limited to the amount of the sale. But if the organization makes significant use of the vehicle before selling it, materially improves the vehicle before transferring it, or gives

## Donating cash vs. stock

A donation of, for instance, \$100 generally costs you less than that, because of the tax deduction you can receive. In some cases, a noncash donation can lower your tax bill even more than a cash donation. Here's an example of how this might play out, using appreciated shares of stock.

This calculation shows the difference between selling the stock and donating the proceeds vs. donating the stock outright. Let's assume you bought the stock 10 years ago for \$30,000, and now it's worth \$90,000. You're in the 35% tax bracket, and the long-term capital gains tax rate is 15%.

### Selling the stock and donating the cash proceeds:

- ◆ Tax on capital gain:  $(\$90,000 - \$30,000) \times 15\% = \$9,000$
- ◆ Donation to charity:  $\$90,000 - \$9,000 = \$81,000$
- ◆ Tax savings from the charitable deduction:  $\$81,000 \times 35\% = \$28,350$
- ◆ Net tax savings:  $\$28,350 - \$9,000 = \$19,350$

### Donating the stock outright:

- ◆ Donation to charity: \$90,000
- ◆ Tax savings from the charitable deduction:  $\$90,000 \times 35\% = \$31,500$

By donating the stock directly, you give the charity \$9,000 more, and you reduce your taxes by \$12,150 more. Note that this is a simplified example, and the results could be different in certain situations. Also note that, if income and capital gains taxes increase in 2011 as scheduled, your 2011 donations could save even more. Check with your tax advisor for the latest information.

it to a needy individual (or sells it to such a person for a price that's below its fair market value), you typically can deduct the FMV.

If you're donating artwork or collectibles, you can deduct the FMV only if the organization uses the property in relation to its charitable function. For example, you can deduct the FMV of a painting you donate to an art museum for its collection. But your deduction generally is limited to what you paid for the painting if you donate it to, say, an animal welfare organization to sell at its charity auction.

When you donate real estate, you generally can deduct its FMV. But if you donate only *use* of the property, you must structure the gift in a way that meets IRS standards, such as a conservation easement or fractional interest gift, in order to take a deduction.

## Keep the IRS happy

If you don't document your contributions according to IRS rules, you could lose your

deductions. Not surprisingly, the greater a donation's value, the more documentation the IRS typically requires.

For a contribution worth at least \$250, the IRS requires you to have a written acknowledgment from the organization. The document must provide the name of the organization, list the items donated and their value, and state the value of any goods or services you received in return. You don't need to submit the document with your return, but you should keep it in case it's needed to substantiate your contribution.

If your total noncash contributions exceed \$500 for the year, in addition to having the written acknowledgment(s) as described above, you'll need to file Form 8283, "Non-cash Charitable Contributions," with your tax return for the year you claim the deduction. You may also need to include details about how and approximately when you acquired the property, and for what cost.

Noncash donations topping \$5,000 generally require written appraisals of the property donated; this is in addition to the documents required for smaller donations. The appraisal should be completed within 60 days prior to the date of the donation and include a description of the property, the date of the donation, the appraiser's identity, and the method he or she used to value the property. In certain circumstances you'll be required to include the appraisal with your tax return.

For example, for an artwork deduction of \$20,000 or more, you must attach a complete

copy of the signed appraisal. Moreover, if the donation consists of just a single item that's valued at \$20,000 or more, you'll need to provide a photograph of it, if requested.

### Simple solution, strict rules

If you have one or more charitable organizations you'd like to continue supporting but you're feeling the cash pinch of the slow economy, making noncash donations may be the answer. To ensure your donations maximize your tax savings and square with IRS rules, consult your tax advisor. ♦

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## Growing up

### Morphing a ma and pa shop into a professional family business

**W**hen a company is referred to as a ma and pa operation, you might envision three or four family members working in a back garage assembling a product the family's patriarch invented. This setup may work fine during the company's infancy, but for it to remain competitive and profitable, the family business must "grow up" by enhancing its operations.

#### Simpler times

If your company is in the early "building block" years, you've likely assembled your operations in a much simpler, less formal fashion. In fact, you and your family may have successfully managed to run the company for some time without much, if any, outside help. But as the company grows, you'll eventually become spread too thin and unable to both effectively lead and run day-to-day operations.

With growth comes the need for maturity and increasing sophistication of your operations. Your company will need to advance its supporting operational infrastructure to efficiently

handle a growing client base and business volumes as well as capitalize on new opportunities to expand. Focus on these four areas.

**Organizational management.** Starting out, family business owners often serve as a "jack of all trades." Because it's your own company, you know what needs to be done and are used to doing whatever is needed. New employees, however, will need guidance. This includes providing them with written job descriptions and training.

Implement a formalized system for measuring performance that gives employees regular and constructive feedback. Not only is this necessary to help them improve, but it also serves to motivate, compensate and reward them. This is particularly key to attracting and retaining nonfamily employees, who typically desire an objective performance evaluation system that's applied to family and nonfamily employees alike.

To minimize misunderstandings and conflict, issue a handbook of company policies to both



family and nonfamily employees, and establish a formal advisory council to objectively mediate and develop solutions.

**Business processes.** At the core of your family business are its processes, so the more you can systematize and document them, the more easily you can train your staff to follow them for increased efficiency, productivity and quality.

Professionalizing your business processes also involves looking at opportunities to streamline them. Reducing the amount of manual effort required can free up your resources to process bigger business volumes. When analyzing your business processes, pay particular attention to your operations, sales and marketing, finance, human resources, and customer product and service delivery.

**Strategic planning and decision-making.** For many family business owners, their business vision, goals and strategies tend to primarily reside in their heads. Business planning discussions may informally occur on an impromptu

basis around the dinner table or during family gatherings.

But, as your business operations become increasingly complex, formalizing your plans in a written document and communicating them companywide is vital. This will keep employees in the loop and empower them to make effective decisions and act in alignment with your stated objectives.

**Information technology (IT) systems.** The software applications and tools your family business uses are likely limited to supporting specific business tasks and not as suited for managing overall, end-to-end business processes. As a company's operations grow and become increasingly complex, another common issue is the proliferation of disparate applications and tools that aren't linked or made accessible companywide.

Supporting a professionalized, process-oriented business environment requires integrated IT systems. And integrated systems let employees easily access operational information and automate work effort for improved productivity.

***With growth comes the need for maturity and increasing sophistication of your operations.***

### **Transition time**

Transitioning from a ma and pa shop to a professional family business, you may encounter growing pains. But reviewing your operational infrastructure and making upgrades where possible can help your company survive the current economic downturn and thrive in the future. ♦

# Not ready to retire?

Sign up at age 65 for Medicare if you plan to continue working

It used to be a given that most employees would retire at age 65, but that's no longer true. A growing number of baby boomers are opting to continue working into their late 60s or even longer.

If you plan to postpone your retirement, consider enrolling in Medicare at age 65. If you fail to sign up for Medicare when you're first eligible, you may end up permanently paying more for some of its benefits.

## Medicare enrollment period

Typically, if you're already receiving Social Security retirement or disability checks, this is less of a concern. Your Medicare card will be mailed to you about three months before you turn 65, and you'll be enrolled in Medicare Part A, which provides hospital insurance, and Part B, which covers doctors' services, outpatient care and other medical services.

***If you're not currently receiving Social Security benefits, you'll need to contact the Social Security Administration about three months before you turn 65 to enroll in the Medicare system.***

On the other hand, if you're not currently receiving Social Security benefits, you'll need to contact the Social Security Administration about three months before you turn 65 to enroll in the Medicare system. Contact them even if you plan to work past your 65th birthday. You can either visit your local Social Security office or call 1-800-772-1213.



If you're eligible for Medicare Part A, you also can enroll in Medicare Part B. While Medicare Part A is provided to most workers without charge, the government charges a premium for Part B.

If you need to sign up for Parts A and B, your initial enrollment period consists of seven months: the three months before you turn 65, the month you turn 65, and the three months after that. Missing the initial enrollment period can be costly. The Part B premium could be subject to a penalty of 10% for each 12-month period that you delayed coverage while eligible. The increased premium will continue to be assessed for as long as you have the coverage.

That's not all. If you miss the initial enrollment period for Parts A and B, you'll need to wait to enroll until what's known as the "general enrollment period," which extends from Jan. 1 through March 31 of each year. Your coverage will begin in July.

Similar rules come into play with Medicare Part D, which covers prescription drugs. If you

miss the initial enrollment period when you turn 65, you may end up paying a late enrollment penalty. (Slightly different rules apply for Part C, sometimes referred to as Medicare Advantage.)

### Reason to postpone enrolling in Medicare

If you or your spouse is planning to work past age 65, you may already have health insurance through a group plan. If that's the case, you can enroll in Medicare while you're employed, or else postpone enrolling — without paying the penalty or waiting for the general enrollment period — by waiting until the eight-month period following either

your last month on the job or your last month of health care coverage, whichever comes first. Again, if you miss these enrollment periods, you'll have to wait until the following January to enroll, and you may have to pay higher premiums.

### Seek professional guidance

If you're able to, delaying retirement can make sense. You can sock away a few more dollars for retirement and boost the level of Social Security benefits you ultimately receive. But if you plan to continue working, you'll want to understand how to enroll in Medicare. Your advisor can help you take the proper steps. ♦

## Act soon to take advantage of hiring incentives

If you don't make new hires by Dec. 31, 2010, you'll miss out on two tax breaks available under the Hiring Incentives to Restore Employment (HIRE) Act.

The first is a payroll tax break: Qualified employers are exempt from having to pay the 6.2% Social Security portion of Federal Insurance Contributions Act (FICA) taxes on certain new hires through year end. To qualify, the hire must take place after Feb. 3, 2010, and before Jan. 1, 2011. Your new employee can't have been employed (that is, can't have worked more than 40 hours total) during the 60-day period ending on his or her start date.

While the payroll tax exemption becomes less valuable as year end approaches, qualifying for it is still significant because it allows you to potentially qualify for the second tax break: a tax credit for keeping workers who qualify for payroll tax forgiveness on your payroll for at least 52 consecutive weeks.

The tax savings per qualified retained worker are equal to the lesser of 6.2% of the wages paid to the worker during the 52-week retention period or \$1,000. But, during the last 26 weeks of the period, you must pay the worker wages equal to at least 80% of what you paid him or her during the first 26 weeks. Because of the 52-week requirement, you generally won't benefit from the credit until you file your 2011 tax return.

