the charity disposes of the prop-
erty within a year of the gift, your
deduction is limited to your
basis, unless the charity cer-
tifies that it used the property
for its tax-exempt purposes or
that its intended use became
impossible or infeasible to imple-
ment. If disposed of after year
one, but prior to the end of year
three following the gift, you must
include as ordinary income the
difference between your cost basis
and the deduction claimed, unless
the charity provides the certifica-
noted above. The charity
must now file a Form 8282 for
any property sold within three
years of receipt, whereas before
the form was only required for
property sold within two years.
Finally, you face a penalty of
$10,000 if you identify property
as having a related use if you
know that it is not intended to be
used for that purpose (for exam-
ple, if you know the charity
intends to sell the piece).

**Donor Advised Funds and**
**Supporting Organizations**
The new law directs the
Secretary of the Treasury to
undertake a study on the organi-
zation and operation of donor
advised funds and supporting
organizations. The study further
increases scrutiny on these types
of arrangements. If you have a
donor advised fund or support-
ing organization, you and your
advocates will want to pay close
attention to the Secretary’s study
when it is issued, and how it
impacts your planning.

**Substantiation Rules**
Keep your cancelled checks and
charitable receipt. Effective for
all taxable years starting after the
date of enactment, you can only
satisfy recordkeeping require-
ments for charitable gifts through
a written receipt from the charity
or through bank records. Non-
receipted cash contributions
(such as those given to churches)
will not stand up under audit.

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**“Helping you make a difference.”**

(continued from the front)

In this premiere issue, guest author Mark Cortazzo, CFP, Senior Partner of Macro Consulting Group, provides information for those of you who hold positions in company stock in your employer’s 401(k), profit sharing, or ESOP. Even if you are not impacted by this particular financial planning problem, a member of your family, a close friend, or colleague probably will face this issue in the coming years. We encourage you to share this newsletter with those who might be interested and to request additional information about this and other gift planning topics by returning the enclosed reply card, contacting us at (215) 898-9486 or e-mailing us at mmerz@ben.dev.upenn.edu.

On behalf of PENN Medicine, please accept our sincere thanks for including us in your long-term plans, or for considering such a gift. Your generosity has a lasting impact on our overarching missions of education, research, and patient care.

Very truly yours,

Marcie L.H. Merz, J.D.
Senior Director, Planned Giving
PENN Medicine

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**UPCOMING EVENTS**

**Save the Date!**

**Harrison Society Annual Luncheon**
April 18th, 2007
12:00 p.m. to 2:00 p.m.
Penn Law’s Levy Hall

**Penn Medicine Community Day**
May 11th-13th
Registration: Atrium Lobby;
Biomedical Research Building II/I
421 Curie Boulevard
PENN’s Campus

Please check the PENN Medicine Website for Upcoming Event Information www.med.upenn.edu/alumni

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**Visit**

www.med.upenn.planyourlegacy.org
to learn how!

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**TAX TIP!**

Don’t want to pay income tax on your minimum required distribution this year?

Save the Date!

The Office of Planned Giving is often on the road and happy to meet with you, or you can visit with us on campus!

Marcie L.H. Merz, J.D.
Senior Director, Planned Giving
215.898.9486

Christine S. Ewan, J.D.
Associate Director, Planned Giving
215.898.5341

cewan@ben.dev.upenn.edu
Taking Stock: Do you have company stock in a 401(k) or other company sponsored retirement plan?

*By Mark A. Cortazzo, CFP®

I f you do, you may be eligible for a significant tax benefit that is widely overlooked. Company stock within a 401(k) is treated differently for tax purposes than any other investment within the plan. When taking a lump sum distribution from your retirement account, you can request company stock be distributed in kind. As such, you would pay only ordinary income tax on the cost basis of the plan. This tax benefit is referred to as “net unrealized appreciation”, or “NUA”, as defined by IRS Code 402(e) and described in greater detail in IRS Publication 575.

Here is an example of NUA: Over many years of working for the same company you have contributed $30,000 towards the purchase of company stock. It is now worth $300,000. You are able to take the entire amount of stock ($300,000 worth) out of the plan and only pay ordinary income taxes on the $30,000 cost basis. The $270,000 worth of gain that occurred while your money was in the plan is only subject to capital gains tax, currently capped at 15%. For someone in a higher tax bracket, this can cut the tax liability by more than half. Many individuals who have a high concentration of employer stock are unaware of this strategy, and frequently their tax and/or financial adviser might not understand the benefit of this strategy as it relates to their overall planning.

The mechanics behind getting this tax benefit can be complicated and will require a complete distribution of the qualified plan. (Assets not taken in kind can be rolled over into an IRA to avoid tax on investments outside of the company stock.) Additionally, distributions may be subject to a penalty if taken prior to the age of 59 1/2. Yet for those individuals with highly appreciated stock to distribute, the NUA strategy is a tremendous estate planning tool and can also be a very effective means by which to make charitable gifts, as the charitable deduction may be greater than the tax consequence on the cost basis. In this case, a net-tax liability is triggered, and in some cases a net benefit is actually created while having to recognize the transfer as income. Donors do not receive an income tax charitable deduction.

1. Who qualifies? Individuals who are at least age 70 1/2 at the time of the contribution (they have to wait until their actual 70 1/2 birthday to make the transfer).
2. How much can I transfer? $100,000 each year in 2006 and 2007.
3. From what accounts can I make transfers? Transfers must come from IRAs directly to charity. If you have retirement assets in a 401(k), 403(b) etc., you must first roll those assets into an IRA, and then you can make the transfer from the IRA directly to charity.
4. Do charities can I make gifts? Tax exempt organizations to which deductible contributions can be made (PENN Medicine qualifies).
5. Can I use the transfers to fund life-income gifts like charitable remainder trusts or charitable gift annuities? No, these are not eligible.
6. Can I make a transfer to my donor advised fund or supporting organization? No, these are not eligible.
7. What are the tax implications? a. Federal—You do not recognize the transfer as income, provided it goes directly from the IRA provider to charity; you are not eligible for an income tax charitable deduction.

*Mark A. Cortazzo, CFP®, is a senior partner at MACRO Consulting Group in Parsippany, NJ and an NUA expert who is often used as a resource on the topic by The Wall Street Journal, Forbes, Barron’s, and other national financial publications. He can be reached via email at mcortazzo@macrounlimitedgroup.com.

Arthur Peck, M’52

“My parents showed me that philanthropy was important by what they said and what they did. They could only give small amounts, but to me, the lesson was clear—philanthropy enriches your life.”

Dr. Peck grew up during the Great Depression with parents who always made it a point to give to their favorite charities. For Dr. Peck, PENN Medicine holds a special place in his heart. “Penn gave me an opportunity that changed my life.” Following the example set by his parents, Dr. Peck has transformed his gratitude into philanthropy. He has established four charitable gift annuities and has allotted a percentage of his IRA to the School of Medicine. By working with the Office of Planned Giving, Dr. Peck has taken advantage of the many planned giving options available to support PENN Medicine and has created a lasting legacy for future generations of medical students.

On August 17, 2006, the President signed into law the Pension Protection Act of 2006 (PPA). This 900+ page bill included sweeping changes to the pension and tax laws, including several key charitable giving reforms and incentives. In this issue, we will focus on the charitable provisions contained in the new law. Look for an update on the non-charitable planning provisions in our Winter issue.

IRA Charitable Rollover

The IRA charitable rollover has been under consideration by Congress for years. This provision allows donors to transfer (or “rollover”) money from their IRAs directly to charity, without having to recognize the transfer as income. Donors do not receive an income tax charitable deduction.

1. What qualifies? Individuals who are at least age 70 1/2 at the time of the contribution (they have to wait until their actual 70 1/2 birthday to make the transfer).
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7. What are the tax implications? a. Federal—You do not recognize the transfer as income, provided it goes directly from the IRA provider to charity; you are not eligible for an income tax charitable deduction.

b. State—Each state has different laws, so check with your own advisers. Some states have a state income tax and will include this transfer as income. Within those states, some will allow a charitable deduction and others will not. Other states base their state income tax on the federal income or federal tax paid. Still other states have no income tax at all.
8. Does the transfer qualify as my minimum required distribution? Once individuals reach age 70 1/2, they are required to take minimum distributions from their retirement plans each year, according to a federal formula.

IRAs rollovers to charity qualify towards your minimum required distributions amount.
9. I’m over age 70 1/2 should I consider an IRA rollover? You do a. You do not itemize deductions but make charitable gifts, OR b. You are required to take a distribution from your IRA that you just don’t need, OR c. Your charitable gifts already equal 50% of your adjusted gross income, OR d. You are subject to the 2% rule that reduces your itemized deductions.

Gifs of Tangible Personal Property

Effective September 1, 2006 the rules for gifts of tangible personal property (artwork, jewelry, gems, and other collectibles; motor vehicles, watercraft, and aircraft; livestock, harvested crops, cut timber, and other agricultural products; as well as items of business inventory or equipment) have been substantially altered. Your gifts of tangible personal property are still deductible at fair market value if the charity uses them in furtherance of its tax-exempt purpose. However, if
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**Tax Update**

**The Pension Protection Act of 2006**

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1. **Who qualifies?** Individuals who are at least age 70 1/2 at the time of the contribution (they have to wait until their actual 70 1/2 birthday to make the transfer).

2. **How much can I transfer?** $100,000 each year in 2006 and 2007.

3. **From what accounts can I make transfers?** Transfers must come from IRAs directly to charity. If you have retirement assets in 401(k), 403(b) etc., you must first roll those assets into an IRA, and then you can make the transfer from the IRA directly to charity.

4. **Do what charities can I make gifts?** Tax exempt organizations to which deductible contributions can be made (PENN Medicine qualifies).

5. **Can I use the transfers to fund life-income gifts like charitable remainder trusts or charitable gift annuities?** No, these are not eligible.

6. **Can I make a transfer to my donor advised fund or supporting organization?** No, these are not eligible.

7. **What are the tax implications?** a. Federal—You do not recognize the transfer as income, provided it goes directly from the IRA provider to charity; you are not eligible for an income tax charitable deduction. b. State—Each state has different laws, so check with your own advisers. Some states have a state income tax and will include this transfer as income. Within those states, some will allow a charitable deduction and others will not. Other states base their state income tax on the federal income or federal tax paid. Still other states have no income tax at all.

8. **Does the transfer qualify as my minimum required distribution?** Once individuals reach age 70 1/2, they are required to take minimum distributions from their retirement plans each year, according to a federal formula.

**Gifts of Tangible Personal Property**

Effective September 1, 2006 the rules for gifts of tangible personal property (artwork, jewelry, gems, and other collectibles; motor vehicles, watercraft, and aircraft; livestock, harvested crops, cut timber, and other agricultural products; as well as items of business inventory or equipment) have been substantially altered. Your gifts of tangible personal property are still deductible at fair market value if the charity uses them in furtherance of its tax-exempt purpose. However, if

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**IRA rollovers to charity qualify towards your minimum required distributions amount.**

9. **I’m over age 70 1/2 should I consider an IRA rollover? You do.**

a. You do not itemize deductions but make charitable gifts, OR

b. You are required to take a distribution from your IRA that you just don’t need, OR

c. Your charitable gifts already equal 50% of your adjusted gross income, OR

d. You are subject to the 2% rule that reduces your itemized deductions.

10. **How do I execute an IRA rollover?**

For a sample letter to send to your IRA plan provider, visit www.rmda.org or call your plan administrator.

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