Planning Matters

A Newsletter About Securing the Future for You, Your Family and for Hospice Foundation

Dear Friends,

You have worked hard all year to reach personal, family, and charitable objectives. The decisions you make in the final months of 2004 can have a significant impact on how productive your efforts will prove to be.

We are providing some information we hope you will find useful as the new year approaches. Of course, the exact moves that are right for you depend on your personal circumstances, but we have highlighted some of the more important issues that will affect your year-end planning.

We have also presented some examples of creative charitable planning that can help you achieve your goals and benefit Hospice Foundation as well. These ideas just scratch the surface of options available to you. If we can be helpful to you in any way as you make your year-end plans, we hope you will feel free to call on us.

Sincerely,

Jim Bennett

Jim Bennett, CFRE
Development Director
Hospice Foundation

Inside

Please return the enclosed card for a copy of our complimentary booklet, ***Year-End Tax Planning: Top Ten Questions & Answers.***

TENDING YOUR FINANCIAL GARDEN

Year-end moves to bring in the harvest

Autumn is the time of year when growers eagerly anticipate the harvest—the time of year they literally get to see the fruits of their labors. The tax year dictates its own *growing* season and creates its own fall *harvest* time—a time to take steps to reduce your taxes for 2004 and better position yourself for the next cycles in 2005 and beyond.

In this issue of *Planning Matters*, we highlight several key moves you can still make before year-end. Some of the most important decisions are those that will bring perpetual bloom to the causes and values you hold dear. Accordingly, we will give special attention to thoughtfully constructed charitable plans that can be the perennials in your financial garden and can significantly enhance personal objectives as well.

Thoughtfully constructed charitable plans can be the perennials in your financial garden.

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The cost of the harvest

Like the residue in the fields that escapes the reaper's labors, the federal income-tax system extracts its own tariff from the product of your year's efforts. Our tax system lays claim to a progressively higher percentage as your income goes up.

For the first time in several years, the tax rates to which income is subject have not changed, starting at 10% and going up to 35%. The range of income those rates apply to has gone up slightly, however, reflecting a higher cost of living in 2004.

Special incentives

Just as growers receive special incentives for growing certain crops, federal tax law encourages taxpayers to use their resources to produce certain kinds of income. On the favored list: long-term capital gain and corporate dividends. ***Reward:*** Both are generally taxed at a maximum rate of just 15%—5% for those in the 10% and 15% regular tax brackets.

- ***Bonus:*** In addition to getting lower tax rates, you can also control when you have to report capital gain simply by controlling the timing of a sale.
- ***Weeding out the losers.*** On the other hand, if you sell stocks that have gone down since you bought them, you can use that loss to offset other gain, or up to $3,000 of ordinary income if your total loss exceeds your gain. ***Caution:*** If you buy stocks back within 30 days, you will not be able to recognize the loss.

The Charitable Deduction: A Powerful Planning Tool

Wisely and creatively used, charitable deductions can turn on the sunshine or sprinkle a refreshing shower on your financial garden—and you control the timing. When you choose to support charitable causes such as Hospice Foundation, the government shares the cost in the form of tax savings. The above chart shows the net cost of giving for persons who itemize.

Net Cost of a $1,000 Gift

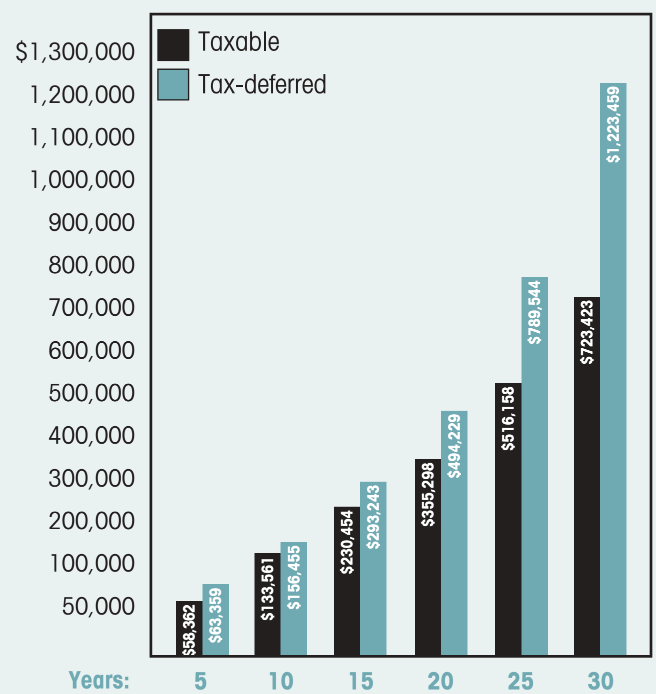
Tax Bracket	Tax Savings	
10%	$100	**$900**
15%	$150	**$850**
25%	$250	**$750**
28%	$280	**$720**
33%	$330	**$670**
35%	$350	**$650**

If you give long-term appreciated stock, you do not have to recognize any of your paper gain.

Pruning for greater yields

One of the major objectives of year-end planning is to keep as much income as possible from being subject to income tax. Judicious use of tax deductions can prune your taxable income, leaving you with more after-tax cash. Deductible expenditures include:

- ***Taxes.*** State and local income taxes, real estate taxes, and some personal property taxes can reduce your taxable income.
- ***Mortgage interest.*** Interest paid on a residence is typically deductible, whereas consumer interest —such as car loans and credit card interest—is not.
- ***Medical expenses.*** You can deduct unreimbursed medical expenses that exceed 7.5% of your adjusted gross income.
- ***Retirement-plan contributions.*** The amount you put into retirement plans such as an IRA, Keogh, 401(k), or 403(b) plan reduces your taxable income (subject to certain limits). Because the amount in a plan also grows on a tax-deferred basis, it grows much more quickly than a taxable account. (See chart.)



GROWTH OF $10,000 ANNUAL CONTRIBUTIONS TO TAXABLE AND TAX-DEFERRED ACCOUNTS
(Assumes 8% return, 35% tax bracket)

Increasing the yield Choosing the right asset to give can make the results even better. For instance, if you give highly appreciated long-term stock, you can take a deduction for the full fair-market value but you do not have to recognize any of your paper gain.

Let's compare a gift of $50,000 worth of stock purchased years ago for $10,000 with a gift of $50,000 cash for a person in the 35% bracket:

	Stock	Cash
Deduction	$50,000	$50,000
Tax savings	$17,500	$17,500
Long-term capital gain	$40,000	- 0 -
Capital-gain tax avoided	$6,000	- 0 -
Total tax savings	$23,500	$17,500
Net cost of gift	$26,500	$32,500

Hybrid Strategies to Address Personal and Charitable Goals

Growers are constantly developing new hybrid plants that provide advantages that the component parts cannot offer. Wise taxpayers also know that it is possible to combine personal and charitable objectives to achieve more jointly than is possible by pursuing them separately.

Stocking the storehouse Retirement security is a high priority for most Americans. While there are tax-advantaged ways to put aside money for retirement, many people would like to do more—and generate tax benefits at the same time.

If you have significant charitable goals, you may benefit from a plan that lets you increase your retirement security and make generous provisions for Hospice Foundation at the same time.

We welcome the opportunity to discuss the benefits of gifts of other types of appreciated investments as well. Please return the enclosed reply card if we can help you with your planning.

Sharing the bounty

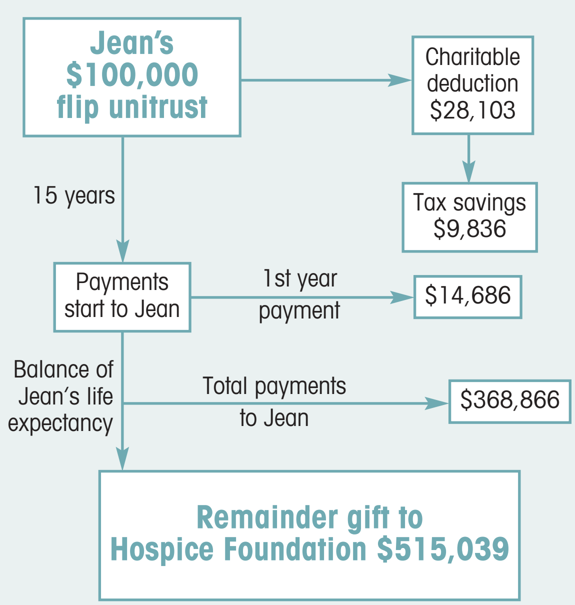
There are also various ways to enjoy the satisfaction of a current gift and the benefit of an immediate tax deduction—yet continue to receive lifetime income. One of the most popular ways of doing this is through a contribution to our charitable gift annuity program.

In exchange for your contribution, we guarantee to make annual payments for life to you or the one or two persons you designate. Both your charitable deduction and the amount of the payments depend on the number and age(s) of the beneficiary(ies). (See representative gift chart on page four.)

Charitable gift: Jean T, aged 50, is a successful professional who has exhausted all traditional tax-advantaged retirement-savings options open to her. She would like to do something significant for Hospice Foundation and augment her retirement income as well.

Planning to retire at the age of 65, Jean decides to contribute $100,000 to a special kind of charitable trust (a "flip" unitrust) designed to produce income for her at the time of her retirement for the rest of her life. When payments start, she will receive 5% of the trust's annual value and, at her death, the funds remaining in the trust will pass to Hospice Foundation.

If the trust averages an 8% total return and Jean lives her normal life expectancy, she can expect the following results:



$25,000 Gift Annuity

	Age	Rate	Annual Payment	Tax-Free Portion	Effective Rate	Deduction
One Life	70	6.5%	$1,625	$978	8.6%	$9,443
	80	8.0%	$2,000	$1,382	11.0%	$12,007
	90	11.3%	$2,825	$2,209	16.1%	$14,179
Two Lives	70-70	5.9%	$1,475	$864	7.8%	$7,295
	80-80	6.9%	$1,725	$1,166	9.4%	$10,195
	90-90	9.3%	$2,325	$1,767	13.1%	$12,626

This chart shows our current rates for gift annuities at sample ages, the effective return, and the amount of the contribution that is deductible, based on an assumed $25,000 cash contribution and a 35% federal income-tax bracket.

In today's low-interest-rate environment, many of our friends find the return on a gift annuity to be an attractive alternative to CDs and other income-producing investments.

Charitable gift: George K, 75, contributes $100,000 cash for a charitable gift annuity that will pay him 7.1% each year for life. In his 35% federal tax bracket, the gift produces these results for George:

Annual income	$7,100
Tax-free amount	$4,601
Deduction	$42,967
Tax savings	**$15,038**

Check with us for details on how a gift annuity can fit into your plans.

A significant portion of the payment from a gift annuity may be tax-free.

You are invited to a seminar on

Everything You've Always Wanted to Know About Being or Naming an Executor or Trustee

Thursday, October 28, 2004, 5:30 to 7:00 p.m.
Hyatt Regency Hotel and Conference Center, Monterey

Panelists:

Liza Horvath, *First National Bank of Central California*
Dick Nystrom, *Fiduciary Services, Carmel*
Shary Farr, *Life Transitions Specialist, Hospice Foundation*
Jim Bennett, CFRE, *Director of Development, Hospice Foundation*

Reservations are necessary at 831-333-9023.

Sponsored by First National Bank of Central California

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

Yours for the Asking

We have discussed just a few of the strategies you may find useful as you conduct your own year-end planning process. To better equip you for the task, we would like to send you a copy of our year-end booklet, ***Year-End Tax Planning: Top Ten Questions & Answers,*** with more ideas for your consideration. To receive your complimentary copy, simply return the enclosed reply card.

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For Your Information...

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