
The American Taxpayer Relief Act of 2012, enacted by Congress in January 2013, preserves existing tax rates for most Americans, while introducing higher rates for those with the largest incomes. The Act also includes important tax advantages for those who make charitable gifts from retirement plans. Remember Stanford spoke with tax and estate planning attorney John Hopkins, '54, JD '57, recently retired from San Jose’s Hopkins & Carley, to learn just how the new Act will affect charitable giving.

Q The Act includes incentives for lifetime charitable gifts for individuals who are over the age of 70 ½ and are taking required minimum distributions from their Individual Retirement Accounts (IRAs). The law allows the individual to make gifts directly from his or her IRA to charity. How does that work?

A Known as an “IRA charitable rollover,” this is an excellent way to make a gift to charity. The act allows Americans who are 70 ½ or older and are taking their required minimum distributions from their IRA—all of which is taxable income to them—to instead transfer up to $100,000 from an IRA directly to a charity, such as Stanford, tax-free. The distribution will not be included in their adjusted gross income, and that can result in significant tax savings. In many cases this will enable the taxpayer to avoid higher tax brackets and the possible reduction of itemized deductions in those brackets. This option expires on Dec. 31, 2013, but Congress could act to extend this provision for future years.

Q The Act increased capital gains tax rates for individuals with higher incomes. How might that impact charitable giving?

A Higher capital gains tax rates create a greater incentive to use appreciated assets to make charitable gifts. If you have an asset that is highly appreciated, such as stock, and you sell the asset, typically you must pay capital gains tax on the amount of appreciation.
If you give the appreciated asset to a charity, generally you are entitled to a charitable income tax deduction for the full market value and, when the charity sells the asset, it will not owe capital gains tax. The charity can then use the full proceeds for the purpose you designate. People who are interested in making a gift to charity and also receiving an income should consider using appreciated assets to establish a charitable gift annuity or charitable remainder trust. The donor receives the benefit of a tax deduction for part of the value of his or her gift as well as an income based on the full value of the assets.

Q The Act had provisions about the estate tax exemption. What do these mean for charities?

A The estate tax exemption of $5 million for an individual that was in effect for 2011 and 2012, indexed for inflation, has been adopted and will continue to be indexed for inflation. For 2013, the individual exemption is $5.25 million and a couple, with proper planning, can transfer $10.5 million free of estate tax. With more certainty about estate taxes, people are better informed to be able to think about their estate plans and the amounts they want to leave to loved ones and friends, as well as a legacy they might want to provide for charities that are important to them.

Q There are some new limitations on itemized deductions. How could those limitations, and the higher income tax rates, affect giving?

A The Act revived the “Pease limitation,” which reduces the amount of itemized deductions that certain taxpayers are allowed. Despite some press that the limitations might negatively impact charitable giving, that is not likely, because taxpayers who would be subject to this rule will almost always find that their charitable contribution deductions are not affected. Most Americans have other itemized deductions—such as state income tax, home mortgage interest, or property tax—that will absorb the itemized deduction limitations, and the taxpayer can still take the charitable deduction in full.

In fact, the higher income tax rates for the top brackets mean that the charitable deduction is even more valuable now, because those dollars would be taxed at a higher rate if they didn't go to charity. The most negative impact of the Pease limitation is that it has confused many people—those who are not steeped in the tax code. That's why it's a good idea to talk to your tax advisor.

Q Do you think the Act will have a positive effect overall on charitable giving?

A Many of the changes to estate and income tax rates will bring more certainty for planning, which will allow people to create thoughtful estate plans, often including provisions for charities like Stanford. The higher income and capital gains tax rates and the extension of the IRA charitable rollover should make charitable gifts more attractive to many people from a tax perspective.

Please note: this article is not intended as legal or financial advice. Please consult your advisors. If you have questions about charitable giving or planned gifts, contact Stanford’s Office of Planned Giving.

John Hopkins: Creating a Charitable Legacy

John F. Hopkins, '54, JD '57, has made charitable giving the cornerstone of his work and life.
John F. Hopkins, ’54, JD ’57, father of six and grandfather of eight, counts one more beneficiary when planning his estate: the local community. He and his wife, Valerie, include it along with their children.

Hopkins, a tax and estate planning attorney for more than 55 years who is now retired in Los Gatos, California, has a few reasons for this approach.

First, he says, “if you have done well financially, you’ve been able to succeed at least in part because of the healthy community that surrounds you.” Nonprofit organizations form the network that maintains the social and cultural fabric of that community. With governments strapped, he adds, nonprofits rely on the support of donors more than ever. “We need to value and contribute to the community—educational and medical institutions, social services, the arts—and we can’t rely on government to do it all,” Hopkins says. “We all need to do something to leave our children and grandchildren a better community. It should be part of our legacy.”

This message has been the centerpiece of talks that Hopkins has given around Silicon Valley for the past 20 years. He follows this philosophy himself. John and Valerie Hopkins support many nonprofits including Stanford, and he has included a bequest for Stanford in his estate plan.

Hopkins has provided for his future gift to Stanford by designating the university as one of the beneficiaries of his retirement plan. Hopkins explains that many people don’t realize that some of the best assets to leave charity are funds in a retirement account. If a person’s children receive retirement plan distributions, the entire amount will be subject to income taxes, and possibly estate taxes if the parent’s estate exceeds the amount of the current estate tax exemption. If a charity is designated as a beneficiary of a retirement plan, the charity receives the full amount, with no income or estate taxes to be paid—regardless of the size of the estate.

Stanford Law Review. Hopkins eventually settled in San Jose. With three other lawyers, he established a law firm that later became Hopkins & Carley, one of Northern California’s largest estate planning firms.

Along the way, Hopkins got involved with his community, working closely with a variety of organizations. He serves on the board of EMQ FamiliesFirst, a social services agency for at-risk children, and others, including the Silicon Valley Community Foundation and Lincoln Law School of San Jose. Hopkins has also been a longtime volunteer for Stanford, including serving as chair of his law school class’s 50th reunion campaign.

Hopkins encourages people creating estate plans to focus not only on tax reduction, but also on their values: how to use wealth to shape their legacy for their children and their community. He even suggests establishing donor advised funds or other gift vehicles that allow their children and grandchildren to make their own charitable gifts in the future.

“I call this your charitable legacy to your children,” says Hopkins. “It will enrich their lives.”
Remember Stanford

☐ Please send me information about:
  ☐ Making a bequest to Stanford.
  ☐ Making a life income gift (e.g., charitable remainder unitrust, charitable gift annuity) to Stanford.
  ☐ Making a gift of real estate to Stanford.

☐ I have remembered Stanford in my estate plans as follows:
  ☐ I/we have named Stanford University as a beneficiary of a will or living trust.
  ☐ I/we have named Stanford University as a beneficiary in one or more of the following:
    ☐ IRA, pension, or other retirement account [e.g., 401(k) or 403(b) plans]
    ☐ Charitable remainder trust
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    ☐ Other (please specify): __________________________

  Approximate amount and purpose of gift (optional): __________________________

☐ I have remembered Stanford in my estate plans as described above, and I wish to join the Founding Grant Society. I understand gifts to Stanford that are highly contingent in nature (i.e., where it is unlikely that the university will ever actually receive anything) do not qualify for membership in the Founding Grant Society.

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Recent Estate Gifts
Stanford is grateful to the generous alumni and friends who have remembered the university in their estate plans. The following is a sampling of recent estate gifts:

**James Angell**, a professor emeritus of electrical engineering, left a portion of his charitable remainder unitrust to Stanford, amounting to a gift of more than $105,000.

**William Bisell, ’49, MBA ’52**, and his late wife, Dorothy, left Stanford a percentage of their estate, equaling more than $2.5 million to create a fund for fellowships for Graduate School of Business students. The expendable fund is named in honor of Dorothy’s brother, Kenneth J. Murphy, who died while serving as a pilot in the Army Air Corps during World War II.

**Jack Brink**, spouse of the late Joyce Day Brink, ’54, MD ’58, bequeathed nearly $1.5 million for scholarships.

**John Cowin, ’50**, left an unrestricted bequest of $200,000.

**Evelyn Haertig**, a friend of the university, bequeathed a portion of her estate to the School of Medicine, resulting in a gift of more than $124,000.

**Mary B. Kennedy, ’30**, made a bequest to the Lou Henry Hoover Fellowship in Earth Sciences, an endowed graduate fellowship fund established in 1997.

**Sarah Zao Hwa Woo Lee**, a friend of the university, made a bequest of nearly $189,000 to the School of Medicine for research.

**Reine Spicer, ’57**, left a gift of $5,000 to the George B. Kroeger Memorial Scholarship Fund, which gives preference to students in the School of Engineering.

**Alan Tull, ’55**, bequeathed an unrestricted gift of $40,000.

**Shirlee Weinmann**, along with her late husband Teller Weinmann, ’41, left $10,000 to the Hoover Institution and $10,000 to the Department of Athletics.

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