

ALERT

# Katrina Emergency Tax Relief Act of 2005 (KETRA)



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On September 23, 2005, the Katrina Emergency Tax Relief Act of 2005 (KETRA) was signed into law by President Bush, relaxing both individual and corporate limitations for charitable cash contributions.

## Charitable Incentives for Individuals

As a general rule, income tax deductions for charitable contributions are limited to a percentage of the individual's contribution base, normally 50 percent for cash contributions to public charities and 30 percent for contributions of property to public charities. There is a five-year carryover for any amounts that cannot be deducted in the year the contribution is made because of these percentage limitations.

KETRA temporarily suspends the percentage of income limitation on charitable cash contributions by providing that the 50 percent limitation will not apply to any "qualified contributions," which is any *cash donation* to an Internal Revenue Code § 170(b)(1)(A) organization (other than a donor-advised fund, supporting organization, or private nonoperating foundation) made between August 28, 2005, and December 31, 2005. Note that although this liberalization of the charitable deduction rules was enacted in connection with Hurricane Katrina relief, *these contributions do not have to be made to a charity whose activities are related to Hurricane Katrina in any way.* Moreover, KETRA provides that these qualifying charitable gifts will not be phased out under the itemized deduction rules. As a result of this temporary provision, a taxpayer can almost totally eliminate his or her federal taxable income for 2005.

## Charitable Incentives for Corporations

Generally, the charitable deduction for contributions made by a corporation is limited to 10 percent of the corporation's taxable income for the year in which the contribution is made.

Like individual taxpayers, a corporate taxpayer may elect to have the percentage limitation not apply to qualified contributions (as defined above) made between August 28, 2005, and December 31, 2005. *Unlike individual taxpayers, these contributions*

*must be made for relief efforts related to Hurricane Katrina.* If a corporation makes this election, these contributions will be deductible up to the amount of the corporation's taxable income, less all other deductible charitable contributions made by the corporation for the year. If the qualified contributions exceed this limitation, then the excess is added to the amounts carried forward for the succeeding five years.

## Additional Provisions

Individuals wishing to make qualified contributions using retirement funds may benefit from KETRA's relaxed limitation on charitable deductions. In addition, KETRA provides enhanced tax benefits for certain activities in connection with Katrina relief efforts, including additional personal exemptions for housing displaced individuals, an increase in standard mileage rates for charitable use of vehicles, charitable deductions for contributions of food inventory by businesses, and charitable deductions for contributions of book inventories to public schools. KETRA also provides an exclusion from income for certain cancellations of non-business indebtedness by reason of Hurricane Katrina.

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