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THE FINANCIAL NEWSLETTER OF FINARC, LLC

Lower Your Taxes: Support Charitable Causes Strategically.

By Matthew C. Slaney, Portfolio Manager

Philanthropy is an important, personal issue in many of our lives. Some people approach the subject by mailing a check when a worthy cause solicits funds. Others wish to support specific causes that are close to their hearts, such as religion (35% of U.S. charitable contributions), education (13%), foundations (9%), and health (8%). My particular interests are education, the American Heart Association and the American Cancer Society.

Happily for us, the IRS rewards charitable giving by allowing us to deduct it from our taxable income, and as a result, lowering our tax bill. Cash donations may be the first approach that comes to mind, but this may not be the most effective. A better option is to contribute appreciated stock directly to a charity. This provides the charity with the equivalent cash value and allows you to deduct the full market value of the donation from your taxable income. The real advantage is that you avoid paying the capital gains taxes from the sale of the stock. As a non-profit, the charity is not subject to capital gains taxes, and can sell the stock immediately if it so desires.

Perhaps an even better way to approach charitable giving is through your own Donor Advised Fund (DAF). This is an account you can establish through FinArc to accept appreciated stock designated for charity when it best serves you, such as a year of extraordinarily high income. You can receive a tax deduction equal to the full market value of the securities in the year of contribution. You can then distribute the funds to your preferred charities over the course of many years, if you wish. As an example, assume that you plan to donate $1,000 to your alma mater annually. You hold $10,000 in a stock with an effective cost basis of $0, so a sale would result in a capital gains tax of $1,500 (15% long term capital gains tax rate). If you were to sell the stock yourself and donate the net proceeds, your charitable contribution would amount to $8,500. Alternatively, you can contribute the stock to your Donor Advised Fund. You can deduct the $10,000 from your income tax that year (instead of $8,500). The DAF sells the stock immediately with-

News

We are pleased to announce that **W. David Malone** has been promoted to Senior Security Analyst. Dave has been analyzing securities for over ten years. He will continue to manage individual portfolios while concentrating his analysis in the industrial, financial, services and medical devices industries.

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Matthew Slaney has joined the Development Committee of The Holden School. Located in Charlestown, Holden School provides high quality special education, counseling and behavioral interventions to low income, high risk students in grades six through twelve whose needs for intensive and individualized services cannot be met by their local public schools. You can learn more about the Holden School at www.holdenschool.com.

(Lower Your Taxes cont.)

out paying tax and retains the full $10,000. You can then direct $1,000 each year for the next 10 years towards your alma mater instead of giving them the full $10,000 up front. An additional benefit to your charity is that you have the ability to invest your $10,000 within the DAF in the meantime so that the charity could receive even more, if you desire.

In addition to cash and publicly traded securities, Donor Advised Funds can accept illiquid assets such as shares in a privately held business or real estate as contributions. These contribution sources are a bit more complicated but may be worth your consideration, particularly if you expect to incur a large capital gains tax through their outright sale.

There are certain requirements, such as a minimum contribution of $10,000, in order to open a Donor Advised Fund. If you would like to learn more about this subject, or charitable giving in general, please let us know.

Trends in Socially Responsible Investing

By Arlene Chaplin

In January 2006, SocialFunds.com posted results of a 2005 *Social Investment Forum Trends* report. The report was aimed at tracking the rises and falls in Socially Responsible Investing (SRI) in overall assets, mutual funds and in shareholder advocacy.

The three main investment strategies in SRI are screening, shareholder advocacy and community investing. The overall assets under management in these areas increased from 2003, but showed a decline from the peak of $2.32 trillion in 2001.

Close to one in ten dollars is currently invested in SRI. This is down slightly from 2003. However, the long-term view shows a 258 percent growth in assets during the past decade. When looking at mutual funds in particular, the results are even more impressive in that growth in SRI mutual funds has outpaced that of overall mutual fund growth in the U.S.

The report noted that tobacco is the social screen that is applied most often. This affects more than 88% of

(News cont.)

It is with great regret that FinArc announces the resignation of **Liv Nash** as Client Services Liaison. Liv joined the team in 2000 and was quickly promoted when she demonstrated the depth of both her client services skills and her knowledge of the finance industry. We will miss her both personally and professionally and wish her well in this new phase of her life.

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Avoid Unnecessary Hospital Complications

Among the goals of the Health Insurance Portability and Accountability Act of 1996 (HIPAA), was ensuring patient privacy while facilitating better communication of critical healthcare information. An unfortunate consequence of the Act is that it may be difficult for a doctor to immediately determine your medical history during an emergency. We believe the following advice of Attorney Dale Kaiser is sound. "If you have not done so, you should authorize the release of your protected health information to those individuals you have designated to serve in various capacities such as your health care agent or attorney-in-fact." If you would like further information on this subject, please consult your attorney for more information.

the assets screened in the SRI arena. In addition, the number of shareholder resolutions filed showed increases for social and environmental issues. The statistics also showed some social investors changed investment strategies from a dual approach using screening and shareholder advocacy as criteria for investment to using shareholder advocacy alone.

Assets in community investing demonstrated dramatic growth both in the short term (2003-2005) and over the past decade. Since 1995, community investing assets have increased by almost 400%.

Finally, the report noted that SRI is increasing on a global level and in emerging markets. Assets under management have increased in Canada, Europe, Australia and Japan.

What Would You Do if Your Wallet Were Lost or Stolen?

By Liv Nash, MBA

As most people already know, canceling your credit cards would be at the top of the list. But are you sure you remember all of the credit cards that were in your wallet? Maybe you had a card tucked away that was rarely used, but kept it in there just in case the opportunity to use it came about? When would you finally realize it was also gone? Possibly after hundreds of charges mounted? The headache of getting the charges reversed could be exhausting. Don't forget about your health club, food store, or organ donor card. They will all have to be replaced.

To avoid the potential aggravation of not remembering what was in your wallet, why not be prepared and make a copy of your wallet's contents? Next to each credit card, write down the number to call to report a lost card; do the same next to your membership cards. By being prepared, you limit the potential damage that can be caused by such a loss. The list will also be helpful when filing a police report, should your wallet have been stolen.

Don't forget to call the Social Security Administration if you carry your social security card in your

wallet. You will need to contact them immediately.

Lastly, have the numbers of three reporting organizations so that you can place a fraud alert on your name and social security number.

Keep the above information along with a list of other helpful reminders in a safe place that you will remember. Everyone hopes that this scenario never happens to them, but being prepared could make the experience a lot less aggravating.

Environmental Liability Disclosure Requirements

For many years, the validity of factoring a business's social responsibility into investment decisions has been debated. Some issues that sound reasonable may be difficult to prove. For instance, favorable employee relations can reduce turnover. Lower turnover reduces the cost of hiring and training new people. Lower costs should result in higher profits. Other issues, such as environmental liabilities, can have a more obvious financial impact. The Fall 2005 issue of *Business Ethics* points out that FASB (the organization that sets U.S. accounting guidelines) and the SEC (the primary regulator of the securities industry) are focusing on requiring companies to disclose environmental liabilities in their companies' financial statements. For example, "a company is operating a mine with a future life of 15 years, the company must at some point estimate and disclose what it will cost to close the mine and make required restoration."[1] The example company knows it will ultimately have to spend money to restore the mine. The most recent FASB policy requires companies to report such environmental liabilities on their financial statements. The goal is to provide better financial information to investors. An additional benefit may be that companies will also act less destructively, if only to minimize these reported future costs.

[1]"Business Ethics", Vol. 19, No. 3, Fall 2005, P. 9

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New contribution limits and catch-up provisions under the new tax law

Plan	2005	2006	2007
Traditional IRA/Roth IRA Catch up contribution for 50+	$4,000 $500	$4,000 $1,000	$4,000 $1,000
401(k)/ 403(b)/ SEP Catch up contribution for 50+	$14,000 $4,000	$15,000 $5,000*	$15,000* $5,000*
Simple Plan Catch up contribution for 50+	$10,000 $2,000	$10,000* $2,500	$10,000* $2,500*
Education IRA	$2,000	$2,000	$2,000

* Potential increases for inflation in $500 increments