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XYZ COMPANY'S HURRICANE KATRINA CHARITABLE LEAVE DONATION PROGRAM

Introduction

The magnitude of the devastation caused by Hurricane Katrina is unprecedented in our nation's history. As a result of this crisis, the IRS released guidance on September 8, 2005 intended to significantly expand the tax benefits of certain charitable cash contributions made prior to January 1, 2007. We know each of you is seeking ways to continue to meet the needs of those directly impacted by the crisis. As a result of this new IRS guidance, we are pleased to introduce XYZ Company's Hurricane Katrina Charitable Leave Donation Program.

The Charitable Leave Donation Program concept is a unique donation concept that has been specifically authorized by the IRS in the wake of Hurricane Katrina. This Summary explains what a Charitable Leave Donation Program is and how the Program will operate in the XYZ Company. It is intended to contain all the information necessary to help you decide if you want to participate. After reading this Summary, you should contact your Human Resources Office if you have any unanswered questions about the Charitable Leave Donation Program.

Why Do We Need a Charitable Leave Donation Program?

The Charitable Leave Donation Program is a pooled fund of employee leave. The principle objective of the Charitable Leave Donation Program is to encourage charitable cash contributions to the hurricane relief efforts by enhancing the tax benefit you receive from charitable contributions. We realize that many employees do not have readily expendable resources to donate to this relief effort or would like to donate more. The Program helps in both respects by allowing you to convert unused or forfeitable vacation, sick or personal leave into cash contributions to a broad selection of charitable organizations that are assisting the Hurricane Katrina victims.

The Charitable Leave Donation Program offers employees a simple method of leave donation. Employees can make specific charitable donations of leave to the Program and designate the specific charitable recipient from the list attached to the election form. This list includes a large number of organizations, including national, regional and faith-based organizations that are assisting the Hurricane Katrina victims.

Employee Coverage

All XYZ Company employees, both full-time and part-time, are eligible to participate in the Program provided that the employee accrues vacation, sick or personal leave. Anyone who has accrued personal leave may contribute leave to the Program.

How The Program Works

Under the Charitable Leave Donation Program, you can elect the amount of leave you want contributed to a charitable organization. XYZ Company will reduce your vacation, sick and/or personal leave accounts by your election amount. XYZ Company will then contribute on your behalf directly to the charitable organization of your choice a cash amount equal to the gross amount of your donated leave. If you contribute to a charitable organization using this method rather than an equivalent cash contribution, your after-tax income will effectively increase since you are now receiving the maximum tax benefit from your charitable contributions by essentially contributing "pre-tax dollars" rather than "after-tax dollars." The tax law provides limits on the tax deductions you can claim for your charitable contributions. Because of these limitations, you can claim charitable contributions only if you itemize your income tax deductions on Schedule A of IRS Form 1040. Even if you itemize your deductions, the IRS often limits those charitable deductions so that you may not effectively claim the full amount of the deductions. For example, if you are a single individual with no dependents and do not itemize your tax deductions, then donating your leave through the program rather than making a direct cash contribution after you receive your leave payments can save you significant taxes. Of course, your tax savings will vary according to your own specific tax bracket, your other tax deductions, your accrued leave and whether you itemize your deductions.

Regardless of your specific tax situation, your donations made through the XYZ Charitable Leave Donation Program will always receive more favorable tax treatment than if you were to make a direct cash contribution to the same charity. The following example briefly illustrates how the program maximizes donations due to the favorable tax savings the program generates by converting your accrued leave into "pre-tax donations":

Example:

Employee A, a salaried sales representative, desires to donate \$300 to the Hurricane Katrina relief efforts but does not have readily available cash to make such a donation. Employee A's effective hourly wage is \$20 per hour when her paycheck is divided by the number of hours that she works during the pay period. She receives a net paycheck for each pay period equal to 75% of her gross pay since 25% of her paycheck is reduced by applicable payroll taxes (15% federal income taxes, 7.65% Social Security/Medicare taxes and the remaining amount as state and local income taxes).^{*} Consequently, for Employee A to donate \$300 to the hurricane relief efforts, she will have to receive and donate pay equal to 20 hours (20 hours X \$20 X 75% = \$300). If Employee A chooses instead to have XYZ Company donate \$300 cash equal to a portion of her accrued leave, then she could make the \$300 charitable donation through XYZ Company while effectively only donating 15 hours of her time (15 hours X \$20 = \$300) rather than 20 hours of pay if she donated after-tax dollars. Employee A elects to donate 3 hours of accrued leave for each of the next 5 months and she receives the remaining 5 hours or \$100 as paid vacation time.

Any elections you make under the Charitable Contribution Program should not directly impact your elections or benefits under any other XYZ company employee benefit plan.

^{*} The example is based upon an employee whose combined federal and state tax rate is 25% of wages paid. Of course, your individual tax savings may be greater or less depending on your specific tax circumstances.

Program Administration

XYZ Company Human Resources Office is responsible for day-to-day operation of the Charitable Leave Donation Program. It will provide information, distribute forms, and process recipient applications. The XYZ Company Payroll Office also plays a key role in this Program. It is responsible for processing transactions related to transfers of leave from the employee leave accounts to the charitable organizations. All leave account transactions related to the Program will be shown on employee payroll statements. The remainder of this Summary explains how you can participate in the Charitable Leave Donation Program.

How Do I Join The Charitable Leave Donation Program?

XYZ Company will schedule an open enrollment period each quarter. During this period, you may become a member of the Charitable Leave Donation Program or amend your prior election by authorizing the Payroll Office to deduct your desired amount of vacation, sick or personal leave in increments of one-half days (*e.g.*, 4, 8, 12 hours) to be donated to the charitable organization(s) of your choice from the list of designated charitable organizations. You must have sufficient leave in your account on the effective date of the donation to cover this allocation. Your election will continue until changed or until you have insufficient leave in the selected category to continue the requested contributions. You will be notified by the Human Resource office in the latter case. If you feel you qualify for a special enrollment period, contact your Human Resources Office.

Your Leave Allocation Request and Pledge Form

To participate in the Program, you must complete and file a Leave Allocation Request and Pledge Form in which you authorize XYZ Company to reduce your leave balances by the amount you wish to have the Company contribute to the charitable organization(s) to which you choose to donate your leave. For example, if you elect to participate in the Charitable Leave Donation Program, the gross amount of your leave without any reductions for taxes or any other payroll deductions will be contributed no later than the end of the quarter directly to the charitable organization(s) of your choice and in the amounts so designated for the quarter. Your leave account will be immediately reduced by the designated amount.

Additional Charitable Organizations

The list of organizations attached to this election form identifies national, regional and faith-based participating charities that are currently involved in disaster relief assistance efforts in support of the Hurricane Katrina devastation. The listing, which appears in alphabetical order, consists of charitable organizations compiled by the Federal Government or news agencies as reputable organizations involved in Hurricane Katrina relief efforts.

Contributions to these organizations are designated by completing the attached Leave Allocation Request and Pledge Form. XYZ Company will ensure that these contributions are forwarded to the organization(s) designated. For information on how an organization plans to use the funds donated to it, please contact the organization directly. The designated charitable organizations will not provide goods or services in whole or partial consideration for any of the leave allocations made to the organizations. If a charitable organization is not on the list, the XYZ Company will give consideration to expanding the list in its sole discretion. To be eligible for consideration, the organization must at a minimum qualify as tax-exempt under Section 501(c)(3) of the Internal Revenue Code and to which contributions are tax deductible pursuant to Section 170 of the Internal Revenue Code.

As you consider giving your unused leave to help further the hurricane relief efforts, also remember that there are many other charities that depend on your contributions and support to sustain vital community services throughout the country. Please remember these organizations when you make your non-Program contributions.

How Do I Make Extra Contributions To The Program?

You may contribute leave to the Charitable Leave Donation Program during any quarterly election period. An election Form has been designed to facilitate employee contributions to the Charitable Leave Donation Program. It may be used to make the quarterly contributions, to make "extra" single sum leave allocation contributions, and to designate all or a portion of your contributions to the specific charitable organization(s) of your choice. The Program cannot accept cash contributions on a pre-tax basis directly from you, but you are encouraged to still make such cash contributions to the charitable organizations of your choice.

What Happens To My Charitable Donations?

All contributions of leave go into the Charitable Leave Donation Program. Once deposited, they cannot be returned to you but are instead donated in a cash equivalent of your gross pay to the designated charities. If you terminate your employment at the XYZ Company you do not receive a refund. Similarly, if you contribute leave to a specific charitable organization you are not permitted to later decide you want the money contributed to a different charity. You can change your designated charity at the next quarterly election period for future contributions.

Are There Limits on What I Can Contribute?

Yes. There are minor limits on how much leave you can contribute and to what organization(s) you can contribute. Under the Charitable Leave Donation Program, you can contribute to any eligible charitable organization listed in the attached eligible charities list. You may not donate more than the leave you would accrue in one year. For example, if you accrue 8 hours of annual/personal leave biweekly (208 hours a year), then you may not donate more than a total of 208 hours of such leave to the Program in that year. The leave allocation limitations on how much leave you can contribute may be waived under certain conditions. If you need more information on how to obtain such a waiver, contact your Human Resources Office.

No state or local governments have issued guidance on this topic, but it is anticipated that they will follow the IRS' lead on this issue since your Form W-2 will not include any of the allocated leave as reportable income or wages.

Thank you for your generous support of the Hurricane Katrina disaster relief efforts.

LIST OF ORGANIZATIONS AND SPECIAL FUNDS

The following list of national and faith-based organizations are involved in the Hurricane Katrina relief efforts and, in many situations, a broad range of other charitable activities.

Charity Code Number

Federal and State Sponsored Relief Funds

001	Bush – Clinton Katrina Fund
002	Alabama Governor’s Emergency Relief Fund
003	Louisiana Disaster Recovery Foundation
004	Mississippi Hurricane Recovery Fund

National and Faith-Based Relief Funds

005	Adventist Community Services
006	Angel Flight
007	America’s Second Harvest
008	American Red Cross
009	AmeriCares
010	Baton Rouge Area Foundation
011	B’nai B’rith Disaster Relief Fund
012	Catholic Charities
013	Christian Disaster Response
014	Christian Reformed World Relief Committee
015	Church World Service
016	Corporation for National and Community Service Disaster Relief Fund
017	Disaster Psychiatry Outreach
018	Episcopal Relief and Development
019	Feed the Children
020	Gifts In Kind International
021	Habitat for Humanity International
022	Human Society of the United States
023	ICNA Relief
024	Islamic Relief
025	Lutheran Disaster Response
026	Mennonite Disaster Response
027	Mercy Corps`
028	National Voluntary Organizations Active in Disaster
029	National Trust for Historic Preservation
030	Nazarene Disaster Response
031	Network for Good
032	Operation Blessing
033	Operation USA
034	Presbyterian Disaster Assistance
035	Salvation Army

**Charity Code
Number**

National and Faith-Based Relief Funds

036	Relief Welcome Wagon
037	Save the Children
038	Southern Baptist Convention – Disaster Relief
039	Union for Reform Judaism
040	United Jewish Communities
041	United Methodist Committee on Relief
042	World Vision