Charitable gift
and financial
planning ideas
from the
University
of Wisconsin
Foundation

Fall 2004

Wisconsin Dividends

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 *Wisconsin Dividends*, 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.

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 percent and going up to 35 percent. The range of income those rates apply to has gone up slightly, however, reflecting a higher cost of living in 2004.

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

Pruning for greater yields

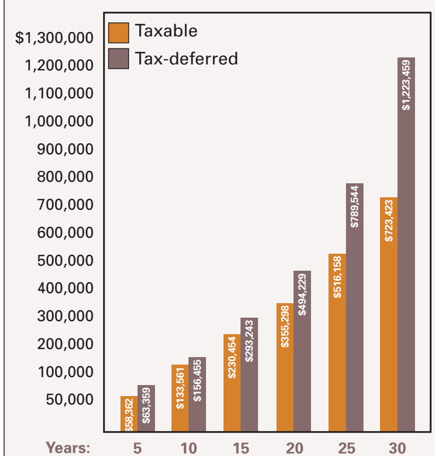
One of the main objectives of year-end planning is to keep as much income as possible from being subject to income tax. Judicious use of tax deductions can prune your taxable income, leaving you with more after-tax cash. Deductible expenditures include:

- **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 percent 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.)

Special incentives

Just as growers receive special incentives for growing certain crops, federal tax law encourages taxpayers to use their resources to produce

How does *your* garden grow?



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

certain kinds of income. On the favored list: long-term capital gains and corporate dividends. **Reward:** Both are generally taxed at a maximum rate of just 15 percent —5 percent for those in the 10 percent and 15 percent regular tax brackets.

- **Bonus.** In addition to getting lower tax rates, you also can control when you have to report capital gains 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 gains, or up to $3,000 of ordinary income if your total loss exceeds your gains. **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 the University of Wisconsin-Madison, the government shares the cost in the form of tax savings. The chart below 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

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 percent bracket:

	Stock	Cash
Deduction	$50,000	$50,000
Tax savings	$17,500	$17,500
Long-term capital gains	$40,000	- 0 -
Capital gains 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.

Retained life estate

A personal residence, a farm or a vacation home is often the subject of a gift. Like gifts of long-term, appreciated securities, gifts of real estate can be very attractive because of the double tax benefit—an immediate charitable deduction and the avoidance of capital gains tax.

However, family considerations do not always permit the making of an outright gift of a personal residence or farm. Instead, you may want to consider a gift of a remainder interest in such property. You will retain the right to possess and enjoy the property for as long as you (and your spouse) live, and you'll obtain a current income tax deduction for the value of the remainder interest directed to the charity.

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.

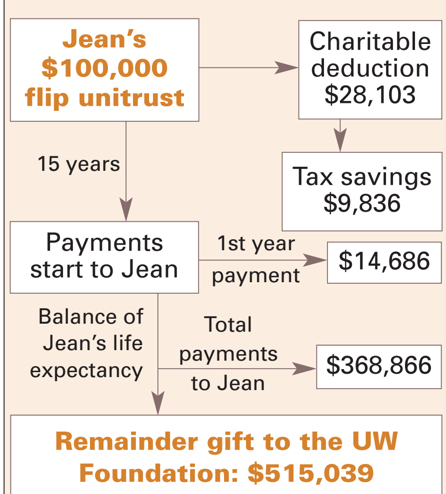
If you have significant charitable goals, you may benefit from a plan that lets you increase your retirement security and make generous provisions for the University at the same time.
(See Example 1)

Example 1

Jean T., 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 the University 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 percent of the trust's annual value and, at her death, the funds remaining in the trust will pass to the University of Wisconsin Foundation.

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



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 at right.)

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

(See Example 2)

$25,000 Gift Annuity

	Age	Rate	Annual Payment	Tax-Free Portion	Effective Rate	Deduction
One Life	60	5.7%	$1,425	$742	7.3%	$7,111
	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	60-60	5.4%	$1,350	$683	6.9%	$4,791
	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 percent federal income tax bracket.

Example 2

George K., 75, contributes $100,000 cash for a charitable gift annuity that will pay him 7.1 percent each year for life. In his 35 percent 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.

For more information

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.

World-class education leads to charitable remainder unitrust

An education from the University of Wisconsin-Madison has taken Jean Reddin Kelso from New York to Washington state. It also has guided her around the world.

Jean Reddin Kelso

"I grew up in Milwaukee, Wisconsin, where I graduated from Washington High School when I was 16 years old," said Jean. "At the time, I was still a little immature and legally couldn't work until I was 18. I needed to grow so I made the decision to attend the UW.

"I was an only child. I left the comfort of my family and neighborhood and at the University was taught about reality and the challenges in a bigger world." Jean graduated from the UW in 1944 with a bachelor's degree in textiles and education.

Jean was always a hard worker and, when not studying, worked at Liz Waters waiting on tables. There she met many interesting people.

"I feel that a degree from the University is an effective key to job opportunities in the United States. Many employers recognize that UW graduates have received a good education and are often considered for a job because of it," said Jean.

"Since I was a little girl, I have been interested in clothes and textiles so my first job was a dream job," she said. "I went to work at Marshall Field's in Chicago and gave sewing and fashion shows."

But after a few years Jean decided she wanted to teach, so she returned to Milwaukee and became a teacher at her alma mater, Washington High School. "I wanted to teach textiles or something related but they needed a teacher for ancient history and for family relationships. I taught those classes for four years," she said.

In the meantime, Jean was working on her master's degree and was taking classes at both UW-Milwaukee and UW-Madison. She earned her degree, which had emphasis on family and consumer education, from UW-Madison in 1956.

"When I graduated from UW-Madison, I joined the UW Extension as a family relationship specialist," Jean said.

She married David Packard, a sculptor who specialized in bronze and wood, and the couple moved to Chicago. Her next job kept her flying between New York and Chicago working on commercials for Kraft Foods. "I got divorced and my life took another turn," she said.

"I was at a convention for home economists and a woman approached me about a job as a money management specialist at Washington State University in Pullman, Washington. I accepted. That's where I met my

(continued on page 6)

World class

continued from page 5


School of Human Ecology building during autumn.

husband, Bill, an Extension dairy specialist for the University. We've been married for 38 years." Jean and Bill are now retired and live in Medford, Oregon.

"I was an Extension specialist who taught the legal aspects of money management," Jean said. "I taught people about wills, use of credit, how to buy a house and other consumer issues, so I knew what I was talking about when I decided to make a gift to the University of Wisconsin Foundation."

As a money management specialist, Jean knows the advantages of picking the right life income plan. "I consider my gift an investment. A charitable remainder unitrust avoids estate taxes and capital gains taxes. It pays me a lifetime income and my money is well managed by professionals." Her gift is unrestricted and will go toward the University's greatest needs.

"My gift is personally satisfying because I know I'm helping some young students by making the University a better place. People give to the UW-Madison to help students prepare for jobs and their future," she said. "My gift enables students to meet challenges of a very complex world. It helps them to have satisfying careers and helps them in their community as well so they can reach out to others and help make their community a better place." Jean and Bill know a lot about communities around the world.

"Since both of us were in the Extension, we had the same number of vacation days, which, if we took them around Thanksgiving or Christmas, gave us about 30 days. We traveled extensively—we traveled throughout the Mediterranean, the Orient, Mexico, Central America and South America."

"We lived in Tunisia, North Africa for five years," said Jean. "Bill was asked to go over there as a dairy specialist. It was a wonderful experience for which I was well prepared. Because of my education at the University, I was comfortable with meeting people from different cultures and countries. I wasn't afraid. I felt confident to build meaningful relationships with them."

Now, the couple is content to travel around the U.S. in their motor home.

"I've had a good life and I really owe a lot to the UW for the areas of interest it opened up to me," said Jean. "I learned a lot there; you can tell by the wide variety of jobs I've had. I have never been afraid to take risks, travel and learn new things."

We would like to send you a complimentary copy of our booklet,

Year-End Tax Planning: Top Ten Questions & Answers.

To get your copy simply return the enclosed card or call:

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

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University of Wisconsin Foundation Vision Statement

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_____ I would like more information on the following types of gifts:

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The University of Wisconsin Foundation engages those who care about the University, provides opportunities to enhance its teaching, research and outreach programs and guarantees ethical stewardship of the gifts received.

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

Sincerely,

Russ Howes
Vice President
Legal Affairs and Planned Giving

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