

CHARITABLE GIFT  
AND FINANCIAL  
PLANNING IDEAS  
FROM THE  
UNIVERSITY  
OF WISCONSIN  
FOUNDATION

FALL 2005

W I S C O N S I N

# Dividends



JEFF MILLER, UW-MADISON UNIVERSITY COMMUNICATIONS

The road to April 15:  
*A year-end tune-up for your taxes*

Let's think of financial planning as a superhighway, with such destinations as paying for college, planning for your children's weddings and enjoying a comfortable, secure retirement up ahead. Along the way, you have to pull over and stop at a "toll booth" every year—April 15, when your taxes are due.

If you're like many of us, you probably resume your journey with a grumble or two about the toll that Uncle Sam is taking on your assets—and a concern about whether or not you will have enough "fuel" left to ultimately reach your financial destinations.

The truth is, by carefully mapping out your financial direction now you can decrease your taxable income—significantly reducing your taxes and allowing you to keep more in your pocket for life's journey. If you have philanthropic leanings, you also can help ensure the University of Wisconsin Foundation can continue to raise, invest and distribute funds for the benefit of the UW-Madison.

The key to success, however, is *timing*. To see the best results at tax time, you must take action by this year's end. You might think of this as you would a tune-up for your car—strategic action now to keep

everything running smoothly and forgo headaches later. This issue of *Wisconsin Dividends* explores ways to tune up your tax strategy and keep you zipping along toward your personal, financial and charitable destinations.

The overall tune-up goal is pretty simple. Best of all, it doesn't involve messy work with a wrench and oil or grease under the hood of anything.

## Less income, less tax

***Wait a minute, you're likely thinking. I want less tax—not less income.***

We are not talking about dramatically altering your lifestyle just so you can pay a few less dollars to the IRS. Instead, the goal is to maintain or improve your financial

situation by reducing your *taxable* income. You will pay less tax when you lower your taxable income, getting more mileage out of your assets as the IRS recedes in your rearview mirror. Here are some effective strategies when you conduct your tune-up:

### **Strategy one:**

**Increase your deductions. Some of the easiest ways to reduce your taxable income are to:**

**Pay as much interest as feasible on a mortgage or home-equity loan before December 31.**

Homeowners can receive a much-needed break since mortgage interest is still one of the best and largest deductions available to most people. Generally, interest paid on up to \$1,000,000 of total mortgage-acquisition debt on your first and second homes is deductible. In addition, you can deduct interest on as much as \$100,000 of home-equity loans.

By contrast, none of the personal interest that you pay on credit cards, auto loans and the like, is deductible. **Planning pointer:** It may make more sense for you to convert your personal interest debts into a home-equity loan. It's a good idea to talk to your advisor and your banker before signing anything.

### **Net cost of a \$1,000 gift**

Tax Bracket	Tax Savings	Net Cost
10%	\$100	\$900
15%	\$150	\$850
25%	\$250	\$750
28%	\$280	\$720
33%	\$330	\$670
35%	\$350	\$650

**When you choose to support charitable causes such as UW-Madison, the government shares the cost in the form of tax savings. This chart shows the net cost of giving for persons who itemize.**

**"Withdraw" from the tax on your mandated IRA withdrawals with a charitable gift.**

Are you approaching or over 70<sup>1/2</sup>? You may be facing the requirement of having to start drawing down your IRA benefits even though you might not really need the funds. The problem is that the funds that have grown tax-free all those years within the IRA (or other qualified plan) are *fully* taxable when they are distributed.

***Charitable planning pointer:***

Consider making a charitable gift to the UW Foundation to help soften that tax hit. (See Example 1)

### *Example 1*

Bill, 72, must take \$100,000 from his IRA this year at a tax cost of \$35,000 in his 35 percent bracket. If he made an outright gift of \$50,000 to the Foundation, he would save \$17,500 in income tax.

An even better option would be giving appreciated stock to the Foundation. In addition to the income tax savings, for instance, Bill would receive the charitable tax deduction for the full fair market value of the stock *and* avoid the capital gains tax that would otherwise be paid if he had chosen to sell instead.

**Make a larger gift to support the University.**

A charitable deduction is one of the simplest ways to reduce your taxes. A cash gift is deductible up to 50 percent of your adjusted gross income (AGI). The full fair market value of gifts of long-term appreciated property is deductible up to 30

\$10,000 cash gift annuity			
Age	Annuity payment	Tax-free portion	Charitable deduction
60	\$570	\$291	\$2,977
65	\$600	\$329	\$3,447
70	\$650	\$386	\$3,866
75	\$710	\$454	\$4,366
80	\$800	\$547	\$4,855

percent of your AGI. If the amount of your gift exceeds the allowable deduction, the excess may be carried over for five years.

**Strategy two:**  
Generate more tax-free income.  
Try one of these approaches:

### **Buy municipal bonds.**

Municipal bonds have long been a favorite of anyone looking for tax-free income. But they require careful examination: Usually, the higher the rating for a municipal bond, the lower its payout rate.

***Planning pointer:*** Calculate whether a municipal bond would be a valuable part of your portfolio by converting the payout rate into a taxable equivalent using your marginal tax rate. (See Example 2)

### *Example 2*

John's income tax rate is 33 percent. He discovers he can buy tax-free bonds that pay 3.5 percent, which is equivalent to a 5.22 percent taxable payout. John can buy U.S. Treasury taxable bonds that pay 4.2 percent. Clearly, the tax-free bonds are the better investment.

**Contribute for a charitable gift annuity with the UW Foundation.**

A charitable gift annuity works like this: In exchange for a gift such as cash or securities, you will receive a guaranteed stream of income for life from the Foundation. Some of the income may be tax-free over your life expectancy. The older you are when the gift annuity begins, the more tax-free income you receive. Once you figure in the income and the charitable deduction, your tax savings can be significant. (See Example 3)

### *Example 3*

Ruth, 70, makes a cash contribution of \$10,000, in exchange for a charitable gift annuity with the UW Foundation. In return, she receives an immediate charitable income tax deduction of \$3,866 to help offset her current tax bill. She also receives an annuity of \$650 for life. Of this amount, \$264 has to be reported as ordinary income, but the remaining \$386 is treated as a tax-free return of principal over her actuarial life expectancy—15.9 years for Ruth.

### **Strategy three:**

**Reduce or eliminate capital gain.** If you have appreciated property held for more than a year, a sale could possibly generate substantial tax on the capital gain (at rates as high as 15 percent). Instead, consider these options:

#### **Delay the timing of the sale of appreciated property.**

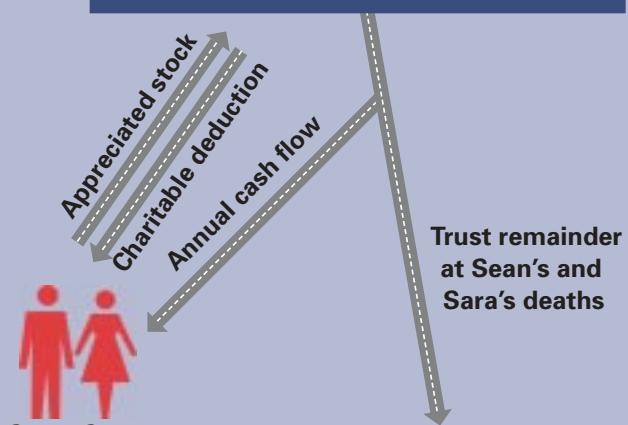
By delaying the timing of the sale until next year, you avoid having to pay any capital gains tax for 2005. If the property—whether appreciated stock, real estate, etc.—is in danger of dropping in value, however, it may be more beneficial to sell now in spite of the gain.

#### **Make a charitable gift to the UW Foundation.**

Even more tax-wise than delaying the sale of your appreciated asset until next year would be using it as a charitable gift. You receive a charitable deduction for the full fair market value of the asset on the date of the gift. Even if the value of the asset does fall in the future, your deduction remains the same.

Alternatively, you may find a gift of appreciated property to a charitable trust with the UW Foundation even more beneficial. You would avoid paying any capital gains tax on the initial transfer of the property to the trust, and you would receive a significant charitable tax deduction as well. Since a trust is tax-exempt, it can sell stock and not owe any taxes. This means the entire value of the stock stays at work for you, producing another source of cash flow, as shown in the following chart.

### **Charitable remainder trust**



 UNIVERSITY OF WISCONSIN  
FOUNDATION  
*Philanthropy makes the difference*



Photo credit: Jeff Miller

## We are here to help

Year-end tax planning is like examining a road map: After studying various options, you decide on the best route to your personal, financial and charitable destinations. This issue of *Wisconsin Dividends* has explored several strategies that you can employ to reduce your taxable income and bring down your taxes while helping UW-Madison. To assist in your planning, we would like you to receive a complimentary copy of our new booklet, *Charitable Tax Planning for 2005: Looking Ahead to April 15*. To request your copy, simply return the enclosed card or call our office.

# The University scores with a gift from former football player

*A knee injury may have kept Chuck Sprague out of the 1960 Rose Bowl, but that hasn't stopped him from being a star contributor for the University of Wisconsin-Madison.*

Chuck, a Wisconsin alumnus who lives in Riverside, California, today is the retired founder and owner of Benchmark Industries. But back in 1957, 1958 and 1959, he was on the Wisconsin football team. His knee injury kept him from playing in that 1960 Rose Bowl, but he was still there to cheer on the team.

While it was an athletic scholarship that convinced Chuck to attend the UW-Madison, it was the professors and his classes that kept him here. "I was fortunate to receive a scholarship," said Chuck. "It allowed me to pursue my education, which ultimately made me who I am."

He reflects on the experience of being taught by world-renowned Professor Harry Harlow, an American psychologist who provided a new understanding of human behavior and development through the study of the social behavior of monkeys.



*Patricia and Charles Sprague*

"I took a beginning class in applied psychology and here it was being taught by one of the University's leading researchers," said Chuck. "Professor Harlow's main objective was to get young students interested in psychology and the simple thought process. I was impressed that this man believed so deeply in what he was researching

that he wanted to share it with undergraduates."

Other memories of his undergraduate days include living in a residence hall until eventually being pledged to a fraternity and moving to a house on Lake Mendota, strolling around campus, spending time at

*(continued on page 6)*

## University scores

*continued from page 5*

Memorial Union and hours of studying. Chuck graduated in 1962 with a bachelor's degree in economics from the College of Letters and Science.

After graduation, Chuck joined Armstrong World Industries in Lancaster, Pennsylvania, and went through their executive training program. He moved around the country and learned about regional cultures. Growing tired of the frequent moves, Chuck was ready to settle down. He loved the West Coast and decided to move to the San Francisco area. He also wanted to run his own business, so he started Benchmark Industries, a company that produces clocks, weather instruments and other items that are used as a form of motivation used to thank employees who have made positive contributions to a company's success. After a successful 25 years with the firm, he sold the company.

Over the past several years Chuck did not have much contact with UW-Madison, but that didn't mean out-of-sight, out-of-mind. "I am who



*Charles Sprague during his years as a UW football player.*



*Bucky Badger waving a "W" flag during a football game at Camp Randall Stadium.*

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I am because of the University and it's time for me to pay back," he said. "We've been successful and we've lived a full life and athletics have always been a big part of it. Patti and I have six grown daughters, all of whom have athletic abilities and are now finished with college. Now it's time for us to execute our plan for our next phase of life."

The couple recently donated a rental property to the University of Wisconsin Foundation to establish the Charles and Patricia Sprague Charitable Remainder Unitrust. "Not only was this a great way to make a gift to the University, but it was advantageous to us, too. We received

a tax deduction, and we will receive income for the rest of our lives. If you do the math, everyone wins and that's part of the fun." Chuck and Patti also give back to their community and are active in the local Kiwanis Club. Chuck looks forward to helping start a network of UW athletes on the West Coast by coordinating events and helping new athletic graduates get settled in the area.

As a former athlete, Chuck now enjoys playing golf. He also enjoys returning to Madison and telling his wife Patti about his days at the UW-Madison, as they stroll along Langdon Street.



Photo credit: Jeff Miller

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

## Charitable Tax Planning for 2005: Looking Ahead to April 15.

**To get your copy, simply return  
the attached card or call:**

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applicability to your own situation of the  
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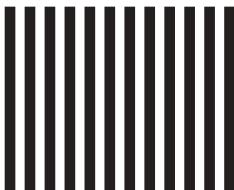
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*Philanthropy will  
mean the difference  
between the  
maintenance of a  
great university and  
the evolution of an  
extraordinary one.*

University of Wisconsin Foundation Vision Statement

- Please send me a copy of *Charitable Tax Planning for 2005: Looking Ahead to April 15*.
- Please have someone from the University of Wisconsin Foundation contact me about my gift plans.
- I would like more information on the following types of gifts:
- Real estate       Gifts from an estate  
 Securities       Pooled income funds  
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engages those who care  
about the University,  
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ethical stewardship  
of the gifts received.*

## Dear Friends,

As the saying goes, life is a journey, not a destination.

On that journey, most of us look forward to what lies ahead, with particular personal, financial and charitable objectives that vary, depending on our age and circumstances in life. But one thing is certain: We have to pay taxes, which can adversely affect the assets available to meet our personal and financial goals.

This issue of *Wisconsin Dividends* explores several year-end strategies to minimize taxes and increase the amount available for your objectives. Some of the most effective strategies involve a charitable gift to the University of Wisconsin Foundation, which also allows you to make a meaningful, lasting statement about the values by which you live.

To assist in your planning, we would like to send you a copy of our free booklet, *Charitable Tax Planning for 2005: Looking Ahead to April 15*. To request your copy of this handy taxpayer's companion, simply return the enclosed card.

Our supporters are our traveling companions, keeping the University of Wisconsin-Madison moving steadily toward the future while making the passage more enjoyable, with enthusiasm and a strong belief in our educational mission. Won't you join us on our journey?

Sincerely,

Russ Howes

Vice President

Planned Giving and Legal Affairs



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