

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

SUMMER 2006

W I S C O N S I N

# Dividends



JEFF MILLER/UNIVERSITY COMMUNICATIONS

Making the most of your willpower:

*Planning for your ultimate goals*

It has been said that a will is the final expression of a person's values. The individuals, institutions and causes that are remembered in a will tell quite a bit about the author.

A document of such importance deserves careful preparation to achieve its author's objectives. And it takes careful planning to achieve optimum benefits from the assets of an estate. Many factors affect the creation of an effective will.

## Your will—A vital document

Perhaps the most important benefit of creating a valid will is the opportunity to specify how you wish your assets to be distributed. Your wishes are unique, and only through a valid will can you be assured that your wishes will be carried out.

You may have items of tangible personal property, for example, that you wish to transfer to specific beneficiaries. Your will can accomplish such a transfer; and because it is probable that the needs of each of your beneficiaries are different, your will can include provisions keyed to the specific needs of each one.

Your will is a very powerful instrument. If it is thoughtfully prepared and carefully drafted, it can provide peace of mind for both you and your beneficiaries.

## A bequest in your will

Each year thousands of individuals, exercising their privilege to determine the final distribution of their estates,

designate that a portion of their assets be used for the benefit and support of America's charitable organizations. Gifts by will have become an integral part of the American philanthropic tradition because they enable people to make significant contributions that might not have been possible during life.

Gifts by will can be tailored to meet your own specific personal and financial objectives. For example, you may wish to express your bequest as a percentage of your estate rather than as a specific dollar amount. Such a *percentage bequest* is an excellent method of protecting your beneficiaries against a possible reduction in the size of your estate.

Another type of bequest designed to protect your primary beneficiaries is a *residual bequest*, which is used to give all the "rest, residue and remainder" of an estate owner's property after all debts, taxes, expenses and all *specific bequests* have been paid. For example, if you wish to benefit several charitable organizations after your family has been provided for, you could specify that each organization is to receive a certain percentage of your residuary estate.

The right to determine who is to receive what upon your death is a tremendous advantage from both personal and financial perspectives.

True, you will incur some expense in having a will drafted, but the technicalities attendant

upon drafting a will make writing your own inadvisable.

Furthermore, you will need to invest a little of your time to communicate your desires to a competent attorney. But once done, it will be one of the wisest investments you'll ever make in terms of both money management and peace of mind.

This issue of *Wisconsin Dividends* highlights some of the consequences that may occur if you do not have a will and some of the considerations you should be aware of in drafting your will.

## Planning for ultimate goals

In planning a will, one should first determine those persons and causes one wishes to benefit from the estate and then consider the options that will be most effective in preserving assets for those beneficiaries.

Married persons will want to use their wills to transfer assets to surviving spouses and to provide for the care and support of dependent children. A carefully drafted will allows a person to plan the most effective arrangements for his or her family.

In some cases, for example, an equal distribution of assets among children may not be appropriate if the needs of each differ significantly. Beneficiaries also vary in their ability to manage assets. Furthermore, assets such as a home or interests in a family business may not be easily divisible.

One privilege that parents of minor children should exercise in making a will is that of naming a guardian for the children. In the absence of a will, a court appointment may result in a choice of which the parents would not have approved.

Single people are even more vulnerable to the vagaries of a court-ordered distribution of assets to surviving relatives, no matter how distant—or to the state if no relatives can be found. For most people, a will is the best means to designate the special friends or charitable organizations that should receive property from their estates.

## The Tax Relief Act of 2001—Impact on estate and gift planning

Fewer and fewer estates will be affected by the federal estate tax for the rest of this decade as the exemption-equivalent amount climbs to \$3.5 million in 2009 (see chart). The tax is repealed for the year 2010. But unless repeal or higher exemption amounts are **reenacted** into law prior to 2011, the estate tax of 2001 will be back in full force with a \$1,000,000 exemption.

The uncertainties surrounding the eventual fate of the estate tax make planning difficult at best. However, if you have a moderate to sizeable estate, you cannot afford to be lulled into inaction, counting on an eventual repeal. Prudence requires that planning be based on the law as it stands now, and that means that the estate tax is still in effect for those who die before 2010 and is scheduled to come back in 2011. And, regardless of the size of your estate, the nontax reasons for

### Rates and Exemption Schedule

Calendar Year	Exemption	Highest Tax Rate
2002	\$ 1 Million	50%
2003	\$ 1 Million	49%
2004	\$1.5 Million	48%
2005	\$1.5 Million	47%
2006	\$ 2 Million	46%
2007	\$ 2 Million	45%
2008	\$ 2 Million	45%
2009	\$3.5 Million	45%
2010	Estate Tax Repealed	
2011	\$ 1 Million	55%

estate planning—e.g., making sure your assets go to your intended beneficiaries, timing the distribution of your assets, etc.—remain as compelling as ever. Further, should death occur before 2010, many wills that are not revised may have unintended tax consequences because of the increase in the exemption amount.

When property passes at death under the current tax system, the “basis” of the property in the hands of the recipient is generally its fair-market value at the time of death. Assume, for example, that a daughter inherits \$100,000 worth of stock from her mother. If she sells it for \$100,000, she would owe no capital gains tax, regardless of what her mother paid for the stock.

This “stepped up” basis system will remain in place until the estate tax is repealed in 2010. At that time, each estate will be allowed a stepped-up basis of up to \$1.3 million (property passing to a surviving spouse will qualify for an additional \$3 million). The basis of all other property will carry over from the basis of the decedent.

In the example above, if the mother had paid \$10,000 for the stock and her basis carried over to

her daughter, her daughter would realize a taxable capital gain of \$90,000 (\$100,000 less \$10,000 basis) if she sold the stock at its market value. Essentially—if the repeal sticks—the focus of testamentary tax planning will switch from minimizing estate tax to minimizing capital gains tax.

**Note: Gift tax to stay**—Currently the estate tax exemption is \$2 million, but the gift tax exemption **remains at \$1 million**, where it will stay permanently. The maximum gift tax rate will be the same as the top estate tax rate each year until the estate tax is repealed in 2010. Starting that year, the maximum gift tax rate will be equal to the top individual income tax rate (slated to be 35 percent under the new act).

## Flexibility in trusts

The use of any planning technique should be weighed in the balance of both long- and short-term objectives. The use of a trust in a will can provide an effective means to accomplish varied goals.

When a business interest constitutes a substantial portion of an estate and the surviving spouse has little knowledge of or interest in the business, special problems can arise.

Leaving your entire estate outright to your spouse in your will may provide for his or her needs, but it raises questions about preservation of the business for the benefit of your children.

A solution to meet both objectives and to reduce the federal estate tax on the first death came into being in 1981, under legislation providing that property in which a surviving spouse has an interest in *at least* all the income payable either annually or at more frequent intervals can be considered qualified terminable interest property (QTIP) and can qualify for the marital deduction. (See Example 1)

### Example 1

Tom owns a successful business in which his daughter Judith is an active participant. He wants Judith to have the business someday but is concerned that his wife, Sharon, will need the income from the business after his death.

In his will, Tom directs that the business interest be held in a QTIP trust with all income payable annually to Sharon for the rest of her life. At Sharon's death, the business will pass outright to Judith.

**Results:** •The business will continue to be managed properly during Sharon's lifetime, and she will receive the income. •The entire value of the business will qualify for the marital deduction in Tom's estate. •The value of the business will be includible in Sharon's estate at her later death, when it passes to Judith.

**Planning pointer:** The QTIP trust also can be used to provide competent management of its assets to ensure their preservation for other beneficiaries, such as children from a previous marriage.

## When personal and charitable objectives conflict

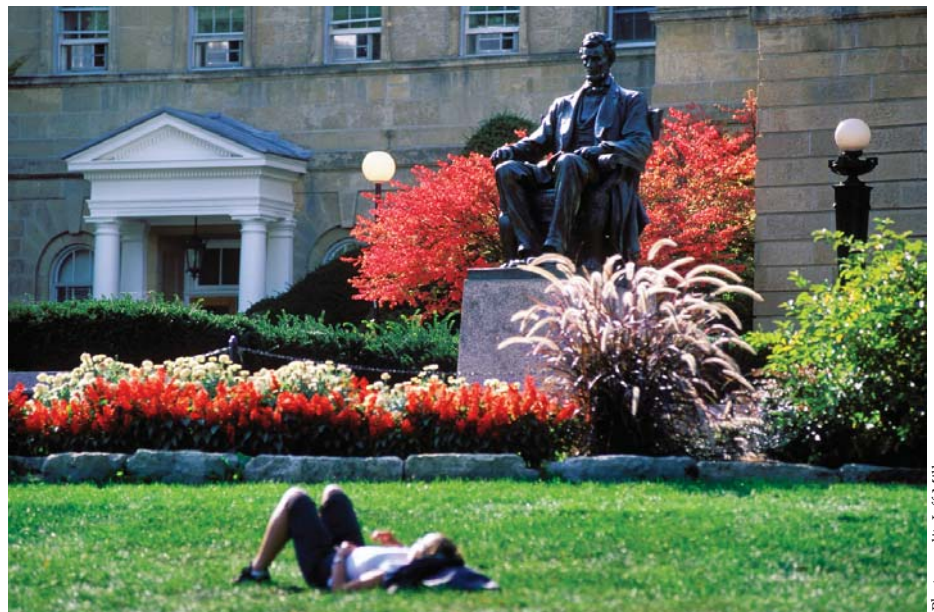
Concern about providing adequately for a surviving spouse often conflicts with another goal: *making a meaningful provision in a will for a favorite charitable organization.*

For some time, life income plans have been available to give a surviving spouse the security

of additional cash flow with the remainder passing to charity, and since 1981, charitable remainder trusts have qualified for the marital deduction as well.

**Situation:** Mary would like to make a substantial charitable gift to the University of Wisconsin Foundation under her will, but she is concerned that her husband, George, will need income from her estate.

**Solution:** Mary directs in her will the creation of a trust that will make annual payments to George for life and pay the principal to UW Foundation at his death. The trust qualifies for the *marital deduction* in Mary's estate and for a *charitable deduction* when we receive the trust assets at George's later death.



## For more information

If you would like to know more about planning your will, please return the enclosed card for a complimentary copy of our latest booklet, *Planning Your Will for All It's Worth*, or if you prefer, simply contact the Foundation. Our contact information is listed on page 7.

# An unusual start

*Lowell Smythe ('47 BS L&S, '48 MS, '51 MD MED) grew up in Madison, Wisconsin, and never anticipated going to school anywhere other than the University of Wisconsin-Madison.*

During his senior year in high school, after doing well in his class in mechanical drawing, he obtained a part-time position with the Chemical Engineering Department at UW-Madison preparing a series of graphs of chemical reactions for a book that was in preparation for publication.

After graduation from high school, it seemed only natural to choose chemical engineering as his course of study at the University. World War II was well under way and Lowell registered for the draft, as did all the other 18-year-olds. His vision was poor, although corrected with glasses, and so he was placed in category 1AL. The men in 1AL were called less frequently than in class 1A, and so he was able to continue his engineering studies. However, in late 1944, he was told that he would be called to service in January of 1945. This didn't allow sufficient time to complete another semester of engineering. Because the



*Lowell and Gwendolyn Smythe*

Engineering and the Letters and Science Colleges of the University were on different schedules, he found that he would have sufficient time to complete a semester in the College of Letters and Science before his expected departure for duty.

During registration, he was asked what his major would be. He hadn't realized that such a decision would be required. In a quandary, he remembered that one of his classmates in engineering had mentioned that two of his friends were taking pre-med. For lack of any other idea, he said, "Pre-med." After all, this would be only temporary until he returned from military duty and to chemical engineering.

Rarely do things proceed as expected. The draft call-up never occurred. Now he was out of sync with the engineering school. The semester passed and another began. It was time to apply to medical school. His application was accepted, and he began his lifetime career in 1946.

First-year classes included an intensive study of anatomy. The members of the class were each asked to choose a partner. The partner whom he had chosen turned out to be working toward a PhD in anatomy and was not a medical student. After several weeks, the anatomy professor announced that medical students should partner with medical students and anatomy students should partner with anatomy students. "He informed

*(continued on page 6)*

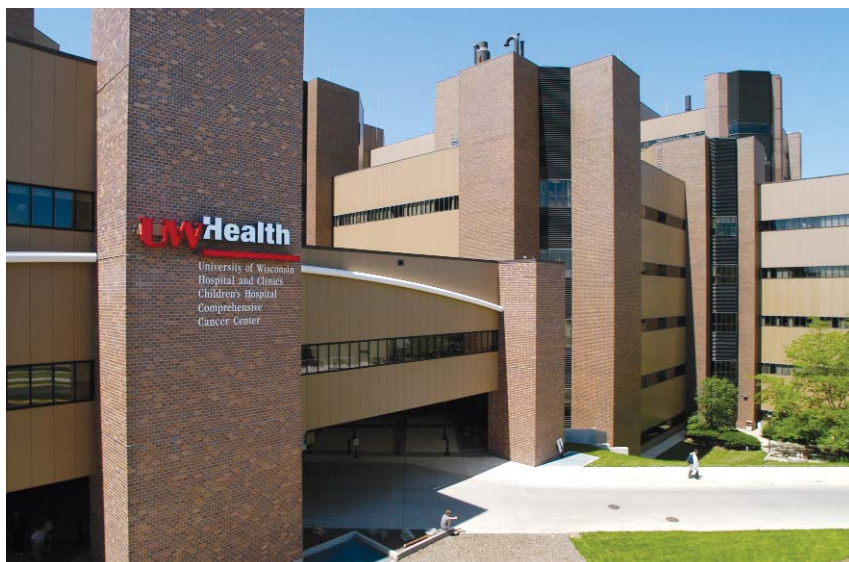
## An unusual start

*continued from page 5*

me that there was another twosome of medical student and anatomy student and that we should exchange partners. I couldn't believe my good fortune when I discovered that my new partner would be Gwendolyn Swiggum ('45 BA, '52 MD MED)," Lowell recalled. The couple worked and studied together, and in 1948 they married. They have four grown children, Wayne, Sandra, Barbara and Ronald. Ronald is the youngest and has Down syndrome.

Lowell, who completed medical school in 1951, interned at St. Mary's Hospital in Madison while Gwendolyn finished her last year of medical school. They then moved to Indianapolis and the Indiana University Medical Center, where Lowell began his residency in pathology and Gwendolyn took her internship.

With the Korean War under way, Lowell was drafted by the U.S. Navy and sent to the U.S. Naval Hospital in Portsmouth, Virginia, for a short time before being transferred to the U.S. Naval Hospital, Beaufort, South Carolina. Lowell and Gwen spent two years there and especially enjoyed the mild winters.



*Visitor entrance to UW Health Hospital and Clinics, Children's Hospital and Comprehensive Cancer Center.*

After completing a two-year stint with the Navy, Lowell took a position in Middletown, Ohio, as a pathologist for a year, after which he and Gwen moved to Minnesota where they spent the next 25 years, he as the pathologist at two hospitals in southern Minnesota and she as a physician for the State of Minnesota in a hospital for mentally retarded and mentally disabled people. They both retired in 1985.

After years as successful physicians, it was time for the couple to "slow down a little."

"We have a soft spot in our hearts for UW-Madison Medical School," said Lowell. "We enjoyed being students there, and this is where our lives came together."

As doctors and as a couple with firsthand knowledge of the possibilities of stem-cell research, Lowell and Gwen established a charitable remainder trust for UW School of Medicine and Public Health. Over the years, Lowell was a prudent investor, and the couple established the charitable trust with appreciated assets. They also made the UW School of Medicine a major beneficiary in their will.

Lowell and Gwen now live in rural South Carolina, about 15 miles from downtown Charleston, where they enjoy the woods, deer, fox, raccoons and other assorted wildlife in the area. They also own property in Beaufort County, South Carolina, along Coffin Creek.



Photo credit: Jeff Miller

We would like to send you a complimentary copy of our booklet, **Planning Your Will for All It's Worth.**

**To get your copy, simply return the attached 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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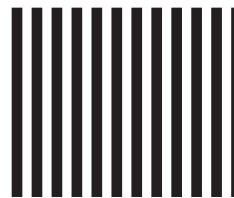
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## Dear Friends,

I'm pleased to bring you the latest issue of *Wisconsin Dividends*.

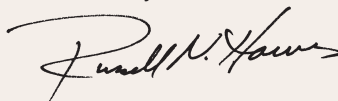
Our newsletters are designed to provide information about financial and estate planning, as well as thoughtful charitable gift arrangements. Each issue features a different topic and includes a reply card that you may return for further information. In this issue we feature the advantages that a well-crafted will can bring to your financial and charitable planning.

To assist in your planning, we would like you to have a copy of our free booklet, *Planning Your Will for All It's Worth*. To request your copy, simply return the enclosed card or call our office.

While everyone's specific circumstances are different, we all want to identify the best ways to support our families as well as charitable organizations that are important to us. I would welcome the opportunity to talk with you about your goals and objectives. We would like to work with you to design a gift plan that can fulfill your wishes and provide meaningful support to University of Wisconsin-Madison.

I look forward to the opportunity to serve you.

Sincerely,



Russ Howes  
Vice President  
Planned Giving and Legal Affairs



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