

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

FALL 2007

W I S C O N S I N

# Dividends



JEFF MILLER, UW-MADISON UNIVERSITY COMMUNICATIONS

Year-end reality:

*Is charitable planning in your fall lineup?*

In recent years, TV programming executives have eschewed a steady diet of sitcoms and dramas for a growing number of reality programs designed to draw us into the hopes, fears, dreams and idiosyncrasies of ordinary—or maybe not so ordinary—folks.

The onset of fall also means it is prime time for another annual tradition: year-end tax planning. And the spotlight is shining directly on you as the year winds down and you seek to capture your own market share of tax-saving tactics and negotiate revenue-boosting maneuvers.

You still have time before the new year arrives to take simple steps to increase your deductions and minimize your taxable income—keeping in mind that the ultimate goal is to pare down current taxes and to position yourself to achieve the best personal, family and charitable goals. Read on to choose which program is best for you.

## Deal or no deal? Taking profits from your portfolio

After a jolting downward spiral from 2000 through 2002, the three

major market indices have doubled or nearly doubled their levels over the last five years. Skittish from the recent market tumble, many investors are wondering if they should dispose of some of their holdings to protect their hard-won gain.

However, selling has a consequence of its own. This comes in the form of a tax on your gain—up to 15 percent if you have held the securities for more than one year. The more successful your investment in securities has been, the more capital gains tax you would owe.

## Survivors: Creative charitable planning preserves gain

Appreciated investments present a host of attractive opportunities to fulfill your charitable objectives.

**Reasons:** A gift of appreciated property allows you a deduction for

its full fair-market value, and you avoid capital gains tax. (See Example 1)

### Example 1

Jeff L, a loyal and generous supporter of the University of Wisconsin-Madison, makes an outright gift of \$25,000 each year to help with annual operating expenses.

As the stock market has risen over the last five years, Jeff finds himself holding several stocks with impressive gain. To fund his gift to the University of Wisconsin Foundation this year, Jeff instead decides to transfer stock worth \$25,000 that he bought in 2002 for \$5,000.

**Results:** He can claim a deduction for the full \$25,000 value of the stock, even though he paid only \$5,000 for it, saving \$8,750 in his 35 percent tax bracket.

Jeff also avoids \$20,000 of long-term capital gain that would have cost him \$3,000 in tax had he sold his stock instead.

**Total savings:** \$11,750.

### Stock holding: \$100,000 current value

Original Cost	Capital Gains Profit	Capital Gains Tax	Percent of Value Lost to Tax
\$10,000	\$90,000	\$13,500	13.5%
\$20,000	\$80,000	\$12,000	12.0%
\$30,000	\$70,000	\$10,500	10.5%
\$40,000	\$60,000	\$ 9,000	9.0%
\$50,000	\$50,000	\$ 7,500	7.5%

## Giving stock does not have to mean giving up on the stock.

Even if you are quite happy with the current composition of your portfolio, you may still benefit by giving stock instead of cash.

**Here's how:** Make a gift to the UW Foundation of some appreciated stock, and use cash to re-establish your position by buying the same stock again. It will have a higher cost basis (equal to the current price), and this will reduce your tax liability further down the road.

**Pointer:** If you happen to hold stocks that have decreased in value, consider selling them first and making a gift of the proceeds to the UW Foundation. The loss can offset other gain—or ordinary income up to \$3,000 if you have more loss than gain.

## Retain the value of your stock and make a gift.

Did you know that there are creative ways to enjoy the fruits of your investing labors **and** make significant gifts? Effective charitable planning is the answer. (See Example 2)

## Cash in the attic? Options for real estate

As the stock market struggled in 2000, 2001 and 2002, real estate recaptured the imagination of the American public, leading to a broad-based run-up in prices previously seen mostly in major metropolitan, coastal and resort areas. Recently, though, this boom seems to have at last reached a plateau—and prices in some areas have dropped

### Example 2

Tom and Phyllis B enjoy picking stocks. They are justifiably proud that their portfolio has doubled in the last four years. Their investing success has fueled their philanthropic urges, and they would like to find a way to share their success with UW-Madison.

After conferring with their advisors and a member of our staff, they transfer \$250,000 worth of some of their most successful investments to a special kind of charitable trust that will pay them \$25,000 each year for the next 10 years.

**Results:** Over the trust's term Tom and Phyllis will receive its entire current value—\$250,000. After 10 years the remaining assets will be distributed to the UW Foundation.

Tom and Phyllis will receive an immediate charitable deduction of \$58,560 that will save them almost \$20,500. Because they paid just \$100,000 for the stock they used to fund the trust, they also avoid capital gains tax on the \$150,000 of appreciation—an additional savings of \$22,500.

precipitously, leading some to dispose of their property and move on. Unlike stocks, there is no immediate market for real estate—making liquidity a major concern. **Pointer:** Real estate owners may find a broader range of options for realizing the full value of their holdings by using them in

### Example 3

Fred and Betty T, both 80, own a \$300,000 vacation house at a lake quite a distance away. While its value has increased substantially over the years, prices have started to weaken lately. They also want to fund a major project at UW-Madison.

Since they rarely use this home anymore and they would like to find a way to benefit from it before it drops in value, Fred and Betty decide to use their vacation home to fund their gift. **Results:** They take a deduction for the home's current value and save \$105,000 in their 35 percent tax bracket. What's more, since they paid only \$50,000 for it 30 years ago, they will not have to pay any capital gains tax on the \$250,000 appreciation.

their charitable planning. As with securities, deductions for gifts of real estate are based on full fair-market value and allow donors to shelter capital gain from tax. (See Example 3)

## Flip that house.

Real estate can also be an excellent asset to fund a gift that pays you income for life. For example, many of our donors have used real estate to create charitable trusts that make annual payments to them for their lifetimes, after which the trust assets pass to the UW Foundation for the charitable purposes they designated. (See Example 4)

## Example 4

Over the years, Carol J, 74, has seen her rental property grow in value from her original purchase price of \$100,000 to \$400,000. She thinks this may be a good time to sell and use the proceeds to increase her retirement income. She is put off, though, by the thought of paying a tax on \$300,000 of gain and an even higher tax of 25 percent on her unrecaptured depreciation.

She decides to transfer the property to a trust that will pay her either 6 percent of its annual value or the trust income, whichever is less, until the property is sold. After the property is sold and the proceeds are invested in a diversified portfolio, the trust will *flip* to one that pays the full 6 percent regardless of its investment outcome.

**Results:** Carol will be entitled to a deduction of \$217,343 for 2007—saving her more than \$76,000 in her 35 percent tax bracket—and the remaining trust assets will eventually pass to UW-Madison.

This special opportunity is set to expire at the end of this year. Please call on us for our help to determine if this gift is right for you.

### To qualify for this special treatment:

- Transfers must be directly from IRA custodians to charitable organizations.
- Gifts must be outright—transfers for life-income gifts are not eligible.

### Who can benefit?

This may prove especially attractive for:

- Taxpayers who may be subject to AMT
- Taxpayers who make gifts in excess of normal deduction limits
- Donors who do not itemize deductions for federal income tax purposes
- Residents of states that do not provide for separate deduction of charitable contributions for state tax purposes

**Added bonus: You may count your qualifying transfers toward your minimum required distribution for 2007.**



## Extreme rollover: IRA—2007 special edition

Thanks to the Pension Protection Act of 2006, taxpayers who are at least 70½ can make charitable transfers of up to \$100,000 this year directly from their IRA accounts to qualifying charities—without having to treat the transfers as taxable distributions.

## Tune us in

Year-end planning provides an annual opportunity to bring your financial picture into focus. Call us for a more detailed explanation of how to make the gift of your choice—and to help you in your planning, we would like to send you a complimentary copy of our 2007 year-end giving booklet, *7 Charitable Tax-Wise Moves You Can Make Now*. Simply call our office or return the attached card to request yours.

# Perfect chemistry: Gift annuity provides scholarships

*After living in Wisconsin for 55 years, Dan and Pat Cornwell are bothered by the failure of the state to provide enough support for the University to keep tuition at a reasonably low level. They decided to do their bit by establishing a gift annuity that will provide scholarships. In addition, Pat has created an endowed scholarship for entering female students who exhibit financial need.*

**A** gift annuity is a contract that begins when either cash or property is given to the University of Wisconsin Foundation in exchange for a guaranteed income that continues for the duration of the life of the



beneficiary(ies) and a remainder that will fund the donor's objectives.

Dan joined the chemistry faculty in 1952. He taught courses at every level, from beginning undergraduate to advanced graduate, and did research in molecular structure and dynamics. For many years he was chair of the physical chemistry division. He played a lead role in the early planning for the building addition that became the Shain Research Tower.

For recreation, he sailed in the Hoofers' Sailing Club, organized yearly three-day canoe-camping trips with faculty colleagues on a dozen Wisconsin rivers and regularly biked with the Bombay Bicycle Club.

In retirement, he has studied public policy issues such as Social Security and tax reform. He has been active in The Madison Institute, a local policy center that sponsors public lectures on vital issues. Eight years ago, Dan began recording these programs, editing them to broadcast quality and distributing them to non-commercial radio stations across the country.

As a charter member of the environmental group 1000 Friends of Wisconsin, Dan proposed development of a public transportation guide for the state. To sell the concept and prove its feasibility, he helped to create a demonstration brochure. The project has since been taken over

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## Perfect chemistry

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by the Wisconsin Department of Transportation.

Pat Cornwell attended the University of Iowa and worked in the chemistry department, where she met Dan, who was there on a post-doctoral fellowship. They were married in 1951 and came to Wisconsin the following year. In Wisconsin, Pat's career included positions in the *Wisconsin State Journal's* editorial department and the offices of Gov. Gaylord Nelson, Attorney General Bronson LaFollette, Assembly Speaker Norman C. Anderson and Gov. Anthony Earl.

After retiring in 1985, Pat served on the University League Board as secretary and publicity chair and on the endowed scholarship and nominating committees. She is a member of Chazen Museum, UW Arboretum, Madison Civics Club, Elks Club, University Club, Olbrich Botanical Gardens, Madison Symphony League, Opera Guild, Madison Jazz Society, Madison Museum of Contemporary Art, PLATO and the Wisconsin Academy of Sciences, Arts and Letters.



Photo credit: Jeff Miller

*The Chemistry Building and downtown Madison skyline as seen from the Computer Sciences Building rooftop during autumn.*

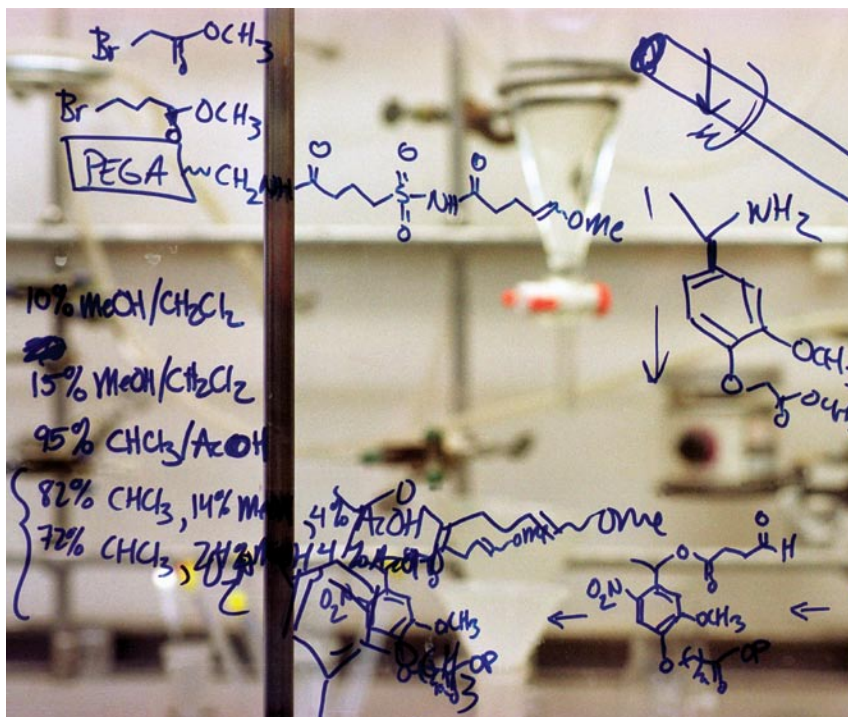


Photo credit: Jeff Miller

*A chemist's research lab notes written on the glass panels of a chemistry lab fume hood.*



Photo credit: Jeff Miller

We would like to send you a complimentary copy of our booklet,  
**7 Charitable Tax-Wise Moves You Can Make Now.**

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.

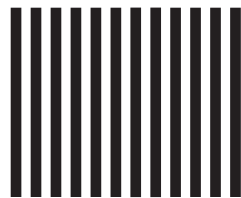
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**Dividends**



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University of Wisconsin Foundation Vision Statement

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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,

With this issue of *Wisconsin Dividends* we invite you to sit back and “flip through” the lineup of some of this year’s financial- and charitable-planning options. Each year seems to take on its own personality in terms of tax and financial themes. Notable trends this year are the up and down swings of the stock market and the apparent crest of the real estate boom in most areas. While not all of these opportunities will apply to your unique circumstances and objectives, we hope you will find some ideas for maximizing your deductions, reducing your taxable income and furthering our mission.

We encourage you to make charitable planning one of your year-end traditions. Start now by returning the attached reply card for a copy of our 2007 year-end giving booklet, *7 Charitable Tax-Wise Moves You Can Make Now*.

Sincerely,



Russ Howes  
Vice President  
Planned Giving and Legal Affairs



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