

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

Fall 2011

W I S C O N S I N

Dividends



Are you up to the test?

With the new year fast approaching, chances are your thoughts are turning to important year-end maneuvers to make for optimum tax results in 2011 and beyond. Charitable planning options and opportunities are among the most important and versatile tools you have at your disposal. To help you achieve your charitable goals, we have designed a year-end planning quiz to help you get your mind around some of the key issues you may want to consider.

Faithful Annual Supporter

Scenario: Jane T is a loyal supporter of the University of Wisconsin-Madison through the UW Foundation and makes an annual gift of \$5,000 to support our work. In preparation for her year-end planning, Jane is reviewing her income records, bank statements and reports on investment accounts. She is pleased to note that several of her stock investments have grown quite nicely this year.

Q: Which of the following would Jane be wise to choose this year to fulfill her charitable objective?

- A. Write her usual check for \$5,000
- B. Sell \$5,000 worth of appreciated stock to capture the gain and give us the proceeds
- C. Give \$5,000 worth of stock directly to us
- D. Make a larger contribution to offset the appreciated value of the stock

If Jane contributes stock that she has held for more than one year

directly to us, she will be entitled to take a deduction for its full fair-market value. Even better, she will not have to recognize or pay tax on any of the amount the stock has increased in value since she bought it.

Jane, of course, would not be subject to additional tax simply because her investments had increased in value, but selling appreciated stock does trigger a taxable capital gain. As such, if Jane sold the stock she would realize a taxable gain even if she made a charitable gift of all proceeds of the sale. *Answer:* C

Avoiding Capital Gains Tax

Scenario: Gene W, 70, retired recently. An active investor, Gene has been quite pleased with the growth he has been able to achieve with his portfolio and would now like to convert some of his holdings to higher-yielding investments—especially since he has some concerns about the future direction of the stock market. He does not, however, find the current yield on

income-producing investments to be attractive and is reluctant to sell stock and generate taxable capital gain. A longtime supporter, Gene also would like to find a way to make a meaningful gift to the UW-Madison through the Foundation.

Q: How might Gene best achieve his goals?

- A. Transfer stock to the UW Foundation in exchange for a charitable gift annuity
- B. Take a chance on a junk bond fund and give us part of the increased yield
- C. Enter into a reverse mortgage agreement on his house
- D. Sell his stock and wait for higher interest rates

Gene can acquire a charitable gift annuity from the UW Foundation and we will pay him a guaranteed amount each year for the rest of his life (based on the value of the stock he transfers to us). For instance, if Gene transferred \$100,000 worth of stock to us, we would agree to pay him \$5,800 each year for life based on his age of 70.

Gene would be able to take a deduction of about \$36,000 this

year. Better still, he would have to recognize and pay tax on only a portion of the gain he would have realized had he sold the stock—and he could spread the recognition of that reduced amount of gain over the period of his life expectancy. If, for example, the stock had doubled in value while he held it, \$2,010 of each annual payment to him would be treated as long-term capital gain for the balance of his life expectancy. As a bonus, an identical \$2,010 of the annual payout would be considered tax-free. **Answer:** A

No Longer Itemizing Deductions

Scenario: Because Phil and Mary P live in a state that has no state income tax and they paid off their home mortgage a few years back, the expenditures they have each year that qualify as itemized deductions—including their annual gift to the UW Foundation—typically add up to an amount slightly less than the standard deduction to which they are entitled. Because of this they have not itemized deductions on their federal income tax return for several years now.

Q: Which of the following may Phil and Mary want to consider as the end of this year approaches?

- A. Moving to another state
- B. Making their usual gift to the UW Foundation
- C. Doubling up on this year's gift and skipping next year
- D. Taking out a new mortgage on their home

With a little planning, Phil and Mary may be able to realize some

tax savings from their generosity by making both their 2011 and 2012 gifts this year. This may be enough to push their itemized deductions past the standard deduction threshold, generating additional tax savings this year. **Answer:** C (See Example 1.)

Example 1

If Phil and Mary make their typical gift of \$5,000, their itemizable deductions this year would add up to \$11,000—just under the \$11,600 deduction for a married couple filing jointly. However, if they also make their 2012 gift of \$5,000, their itemized deduction would grow to \$16,000—\$4,400 beyond the standard deduction amount. This additional deduction would save them \$1,540 in their 35 percent tax bracket.

But what about next year when they will have no gift to deduct? They will simply use the standard deduction just as they would have had they made separate gifts in 2011 and 2012, but they will have locked in the tax savings they generated this year.

Holding Depreciated Securities

Scenario: Tom D, a faithful supporter, makes a gift of \$10,000 each year to the UW Foundation. While some of his holdings are up, a few have experienced significant declines and now are worth less than what he originally paid for them.

Q: As he plans his gift for 2011, should Tom consider?

- A. Writing a check for his typical amount
- B. Skipping his gift because the decline in the value of his stock will generate a deduction
- C. Giving us some of his losing stock to get it out of his portfolio
- D. Selling some losing stock and giving us the proceeds

If you sell stock for less than your purchase price, you realize a capital loss that could be used to offset capital gain. If the amount of your loss is greater than your total gain, excess loss can also be used to offset ordinary income up to \$3,000 per year—and any amount beyond that can be carried forward to be used in the future.



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So if Tom sells some stock that has declined in value from its purchase price and makes a gift of the proceeds, he would be entitled to a charitable deduction for the amount of the proceeds and also would be able to use the amount of the loss to offset other income.

Just as gain is not taxable until you sell, an investment loss cannot be used to offset other income until you sell. If you decide to sell losing investments, be aware of the wash-sale rules, which provide that you cannot deduct a loss if you purchase the same stock within 30 days before or after the date of the sale. *Answer: D*

A Secure and Fulfilling Retirement

Scenario: Carol, 50, owns a successful business and is a generous supporter of the UW-Madison. In addition to her charitable objectives, one of her primary financial goals is to be able to enjoy a secure and fulfilling retirement when the time comes. She has made sure to avail herself of all traditional tax-advantaged retirement-savings options open to her but still feels that it is important to do more and finds herself looking for ways to combine her charitable and retirement-savings goals.

Q: Which of the following addresses both of Carol's goals simultaneously?

- A. Downsize her home
- B. Make charitable gifts that create a source of cash flow
- C. Buy bonds that mature in 15 years
- D. Open a new savings account

Carol can take advantage of a variety of creative opportunities that allow her to make charitable gifts to benefit the UW Foundation and retain the right to receive annual payments

based on the value of those gifts. There are even some plans that would let her defer part or all of the payments until retirement, when it is most needed.

Answer: B (See Example 2.)

Example 2

Carol, 50, decides to contribute \$25,000 each year for the next 15 years to the UW Foundation in exchange for deferred gift annuities that will all begin paying income to her when she turns 65 years old.

The one that she will start this year (2011) will pay her 9.3 percent (\$2,325 per year) when the payments begin in 2026. In addition to this future payment, she will get a charitable deduction of about \$7,000 that she can use this year.

In future years when she creates a new deferred gift annuity, the annuity rate and tax deduction that she receives will change. Each year, the new annuity will be calculated based on her age and the rates in effect at the time the annuity contract is written.

Over the years, she will build up a significant stream of income that is guaranteed by the Foundation to supplement her retirement and get charitable deductions each year as she makes her gifts. In addition, Carol is pleased to know that any residuum from the annuities will be used by the Foundation in the manner she has specified.

Next steps:

Are you wondering what your next best step is? Maybe you'd like more information, or maybe you'd like to speak with us directly. Here are a few options:

- 1 Visit us online** at www.supportuw.org to learn more about how you can benefit the UW-Madison.
- 2 Return the reply card** to receive a free copy of our new booklet, *Year-End Giving: Building On the Basics 2011*.
- 3 Call us at** 608-263-4545 to find out about how a gift to the UW Foundation will further the University's mission and could provide income to you for life.
- 4 Email us** at uwf@supportuw.org. We're happy to answer any questions you might have or send you more information.



Unitrusts have rewards for giver, University

Life has had many rewards for Ed Drager ('56 BS Bus, '60 Law), and he credits the University of Wisconsin-Madison for a great deal of his good fortune.

With the proceeds from selling two condominiums in Vail, Colorado, he created charitable remainder unitrusts through the UW Foundation. The unitrusts help his current financial situation and eventually will benefit UW-Madison.

"For a lot of people in my generation, I think we were fortunate to be born when we were and to have lived where we have," said Drager, who makes his home in Tucson, Arizona. "If you look at history, it's one of the greatest times to have been alive, if you lived in the United States.

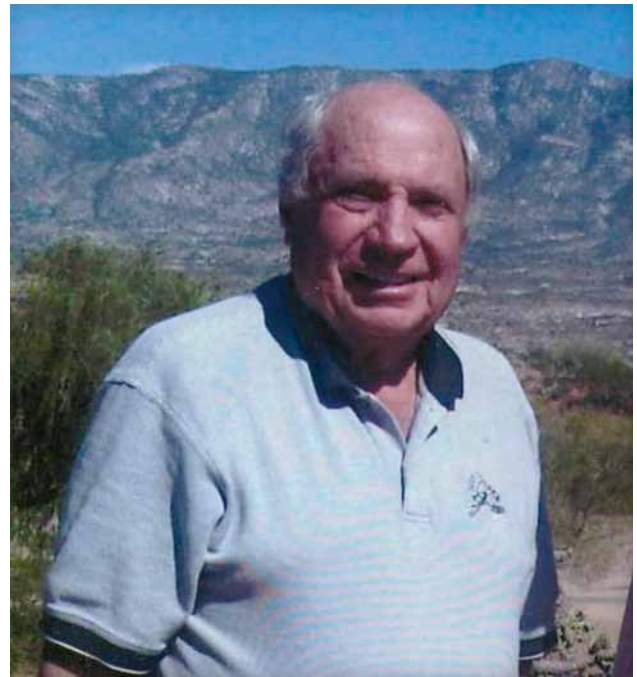
"I think I got a pretty good education at Wisconsin," he said. "That laid the foundation for me."

After earning his law degree, Drager moved to Chicago and joined a small practice that handled labor relations. He was called back to serve in the Army in the early 1960s, and once he returned, he found to his dismay that the direction of the firm had changed.

He went to work for the Container Corporation of America, which made "paper boxes with great style." After that corporation merged with Montgomery Ward, he "thought it might be time to move."

Drager practiced law in Denver before moving on to Vail, "where I practiced for seven or eight years." He worked for the resort community's largest commercial real estate interest, which held hotels, condominiums and other properties.

"Then I retired, more or less," he said. Drager had invested in real estate in Vail, where he lived for more than 30 years. "I served on every board in town, or so it seemed. I could ski whenever I wanted to, go hiking, head out fishing. Everything seemed to work."



Ed Drager is seen near the Catalina Mountains northeast of Tucson, Arizona.

Over time, Drager said, he got bored with the leisurely life. Drager bought a franchise of what was then Mail Boxes Etc., which would become The UPS Store. "The corporation didn't want to sell me a franchise," he said. "They said the city was not big enough." After about two-and-a-half years, it was their 14th largest income producer in the country.

"So I sold that and started doing market research for Vail resorts," he said. "Essentially I rode the ski lift and asked visitors about their experiences in Vail. That was great."

Two condominiums Drager owned in Vail were on the verge of becoming a burden through capital gains taxes. "I had taken all of the depreciation out of them, and I hate to pay taxes if I don't have to," he said.

After consulting with the UW Foundation and his advisors, "we put them into a charitable remainder unitrust and sold them," he said. "We were able to make

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Unitrusts have rewards for giver, University

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the sale right when I created the unitrust, so the UW Foundation had no management concerns or fees.

“I was able to make the sale with no tax liability, the UW Foundation doesn’t have to pay any tax on the proceeds and I get income from the unitrusts for the rest of my life,” he said.

Drager had reasons besides the tax benefits for creating his unitrusts.

“It’s pretty clear to me that I’ve lived a great life, and the University helped make it possible, so I felt I had to give something back to the University,” he said. “I met a lot of fascinating and interesting people. I had fantastic professors, like Edwin Witte, who helped Franklin Roosevelt develop Social Security, and others who helped lead the country out of the Depression. I figured I owed the University something for that.”

Drager, who is president of the Saddlebrooke Rotary Club, has family land in northern Wisconsin, near Eagle River, that has been used at various times by the forestry and wildlife ecology programs at UW-Madison. He makes it back to the cabin there every year for a couple of months.

“The University will get the money from my unitrusts when I leave this Earth,” he said with a laugh, “which I hope won’t be for quite some time.”



Bascom Hall gleams in the autumn sunlight.

Stay in touch with us!

The University of Wisconsin-Madison wants to stay in touch with you. As primary manager of the University’s alumni and friends database, the UW Foundation continually seeks up-to-date contact information. You can update your information online by visiting www.supportuw.org/survey. Please use the identification number located above your name on the *Wisconsin Dividends* mailing label to log in to the website. You will help us to maintain accurate information that is shared selectively with the Wisconsin Alumni Association and any other campus departments and programs with which you may be involved as an alumnus, volunteer, faculty member or donor. Thank you!

On our cover: As autumn returns to the University of Wisconsin-Madison campus, students make the familiar walk up Bascom Hill.



Adams Hall, a residence hall near the shore of Lake Mendota, was built in the 1920s.

We would like to send you a complimentary copy of our booklet
Year-End Giving: Building On the Basics 2011.

To receive more information, simply return the attached card or call:

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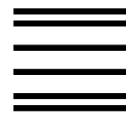
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W I S C O N S I N
Dividends

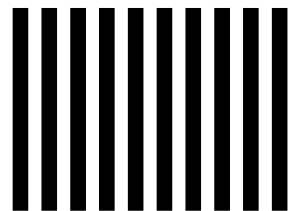


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University of Wisconsin Foundation Vision Statement

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____ 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:

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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.

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Dear Friends,

My name is Ed Drager, and inside this issue of *Wisconsin Dividends* you will read how establishing charitable remainder unitrusts worked for me and for the University of Wisconsin-Madison.

I have lived a great life, thanks in large part to the education I received at the University. When it came time for me to sell some valuable property, it made sense to create a vehicle that reduced my tax burden, that provides me a steady income and that eventually will benefit UW-Madison.

Such an arrangement might work for you too, and it may be worth your time to consult your financial advisor and the gift planners at the UW Foundation.

Sincerely,
Ed Drager