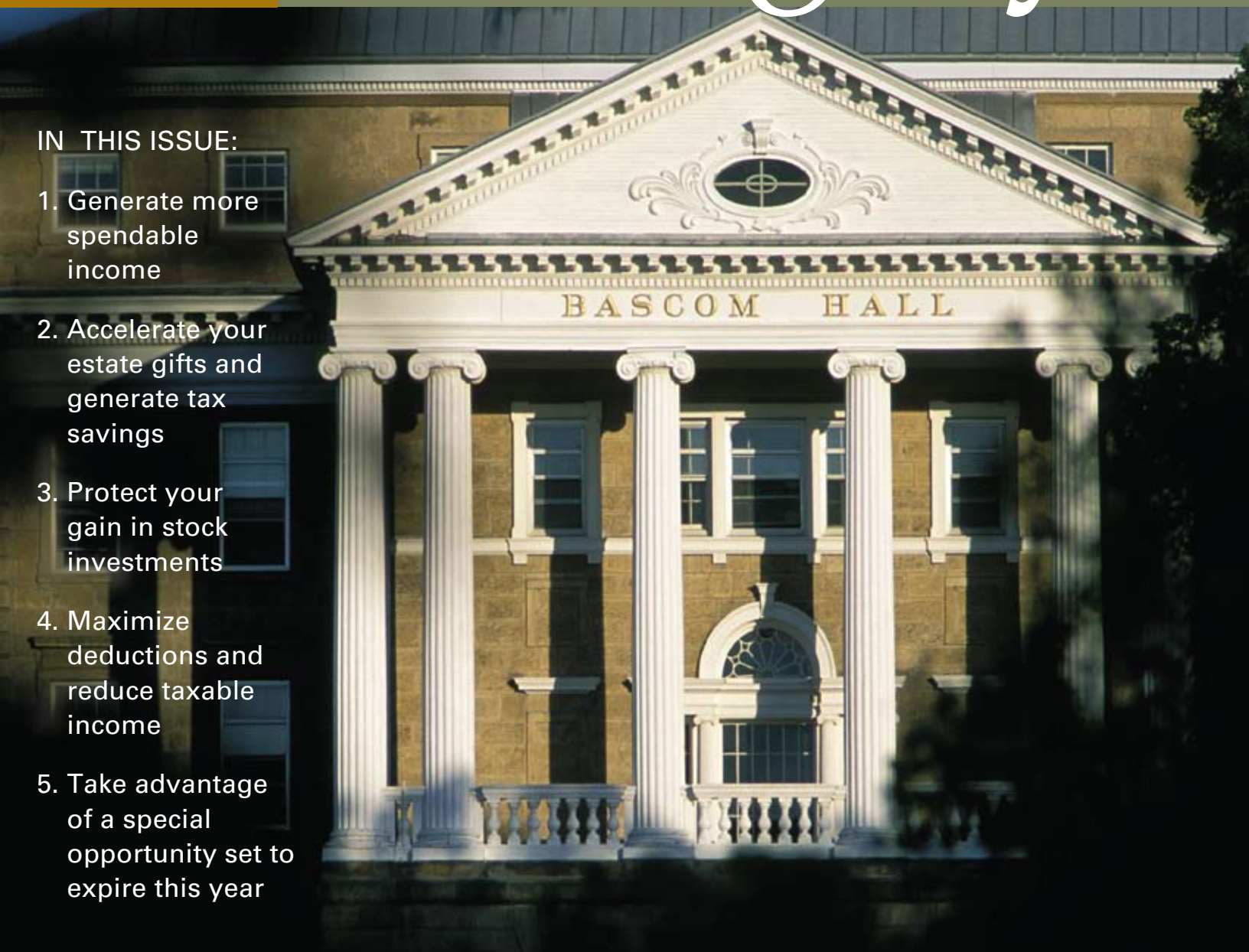
Tax and gift strategies for estate planning from the University of Wisconsin Foundation

Fall 2009

Wisconsin Legacy



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Your personal charitable economic stimulus package:
5 solutions for all ages

1 GOAL: Generate more spendable income.

SOLUTION: Convert low-yielding CDs to a charitable gift annuity.

Interest rates on traditional investments continue to hover at nearly record-low levels. Many investors are discouraged to find that the rates they are being offered to renew their maturing CDs are substantially less than what they had been paid on the ones coming due.

Many of our friends committed to supporting the UW-Madison are finding that our charitable gift annuities offer attractive options:

- Higher payout rates
- Substantial income tax deductions
- Tax-free income

Our gift annuities pay income to you for life at attractive rates—determined by your age—and allow you to take a sizable charitable deduction for a portion of your contribution.

Example 1

Bill and Karen T, both 72, have been getting a 4.5 percent return on a $50,000 CD at their local bank. It will be maturing soon, and they are discouraged to learn that the rate offered for renewal is just 2.25 percent.

They would like to make a meaningful gift to the UW Foundation and generate income to meet their own needs, so they decide to transfer the $50,000 to us for a gift annuity that will pay them 5.3 percent, or $2,650, each year as long as either of them is alive. Better still, almost $1,780 of their annual income will be tax-free for the balance of their life expectancy. In addition, they are entitled to a charitable deduction of more than $16,500, saving them more than $5,775 in their 35 percent tax bracket.

Charitable Gift Annuity Rates

ONE LIFE	
Age	Rate
55	4.8%
60	5.0%
65	5.3%
70	5.7%
75	6.3%
80	7.1%
85	8.1%
90	9.5%

TWO LIVES	
Ages	Rate
55–55	4.1%
60–60	4.6%
65–65	4.9%
70–70	5.2%
75–75	5.6%
80–80	6.1%
85–85	7.0%
90–90	8.3%

2 GOAL: Accelerate your estate gifts and generate tax savings.

SOLUTION: Give a remainder interest in your property.

Many of our friends have already made plans to make substantial charitable gifts that take effect at death—a wonderful way to make larger gifts that may not be possible during their lives. These gifts may also generate significant estate tax savings**—but only if an estate is large enough to be subject to federal estate tax.** Currently, everyone is entitled to pass on $3.5 million of assets free of tax.

Even if you won't benefit from estate tax savings, you can realize income tax savings by making gifts during your lifetime. One of the best ways to accomplish this—without disrupting your current lifestyle—is to give the UW Foundation the right to have your personal residence or farm at your death and retain what is known as a life estate for yourself.

Example 2

A couple, both 75, give us a remainder interest in their home and keep a life estate for themselves. If their house is worth $500,000, they would be entitled to an immediate tax deduction of just over $262,500. This saves them more than $91,800 in taxes in the 35 percent federal tax bracket.

Planning Pointer: Lower prevailing interest rates result in a higher deductible value for a gift of a remainder interest, which means this is an excellent time to consider such a plan.

3 GOAL: *Protect your gain in stock investments.*

SOLUTION: Give stock that has gone up in value.

Few among us will soon forget the drama that unfolded in the financial markets in the fall of 2008. What started in the summer as a slow slide turned into a prolific plunge by November. After a brief turnaround the market bottomed out early in 2009.

Since that time the market has posted a substantial gain, allowing some long-held investments to get back into positive territory—and creating handsome gain.

Many people are more attuned than ever before to protecting their hard-earned gain. One of the best ways to lock in the full value of an appreciated investment is to use that stock to fund your year-end gift.

Many people are more attuned than ever before to protecting their hard-earned gain.

Here's why: If you have owned a stock for more than one year, you are entitled to claim a deduction for its full market value. Even better, you do not have to recognize or pay tax on any of its gain in value.

If you sell appreciated stock and use the proceeds to make your gift, you will still get the same tax deduction, but you will face capital gains tax on any proceeds in excess of your purchase price.

Example 3

Ten years ago, Jean B paid $25,000 for 1,000 shares of XYZ, Inc., stock. Despite the ups and downs of the stock market, the stock is currently worth $100,000.

Jean wants to make a substantial gift to the UW Foundation. If she sells her stock and gives us the $100,000 proceeds, she will be entitled to a deduction in that amount. However, she will also be subject to a 15 percent capital gains tax on her $75,000 profit—a tax of $11,250 that she will not have to pay if she gives us the stock directly.

The UW Foundation realizes as much benefit from a gift of stock as from a gift of cash. Because we are tax-exempt, we do not pay any tax on the gain if we sell the stock.

4 GOAL: *Maximize deductions and reduce taxable income.*

SOLUTION: *Give no-longer-needed income interest.*

Many philanthropic people utilize creative charitable planning—such as a gift annuity—to create sources of lifetime income while making major provisions for favorite charities. It is not uncommon for a person to find later that he or she no longer needs the stream of income created this way.

Some of our generous supporters choose to give their income interests to the UW Foundation. Not only does this stop the flow of unneeded income that inflates the annual tax bill, it also allows the donor to claim a deduction for the value of the income interest.

Example 4

Five years ago Betty W, 78, gave the UW Foundation $400,000 for a charitable gift annuity that pays out 6.8 percent, or $27,200, per year. The payments are scheduled to last for the rest of her life.

Betty has found that she really does not need this income and is dismayed that she pays additional taxes on it.

Consequently, she decides to relinquish her income interest to us and take a current tax deduction for its $158,400 value. In her 35 percent federal tax bracket, this saves her almost $55,440 in taxes.

Low prevailing interest rates increase the value of income interests—including gift annuities and charitable remainder trusts—just as they do with the value of a remainder interest in a personal residence or farm. Given current interest rates, this is an excellent time to consider a charitable gift of an income interest.

5 GOAL: *Take advantage of a special opportunity set to expire this year.*

SOLUTION: *Transfer funds to the UW Foundation from your IRA.*

Charitably minded IRA owners have a new opportunity to use some of their IRA funds to make charitable gifts without historic pitfalls because of special legislation passed in 2006. **This**

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opportunity has been extended until December 31, 2009.

If you are 70½ or older at the time you make your gift to us, you can transfer up to $100,000 from an IRA directly to the UW Foundation this year without those funds being treated as a taxable distribution to you. ***Bonus:*** A gift from your IRA will reduce the minimum distribution you will be required to take from your IRA in the future.

While IRAs are a substantial source of assets for many people and historically have been a logical source from which to fund charitable gifts, there were potential negative tax consequences for doing so. ***Reason:*** Amounts withdrawn from IRAs were treated as taxable distributions to the account owners in all cases. These negative tax consequences will resume in 2010!

Act now to take advantage of this opportunity to make a tax-free transfer. It is especially beneficial if:

- You do not itemize deductions.
- Your total giving exceeds the maximum deductible percentage of adjusted gross income allowed for 2009.
- Your state law does not provide for a charitable deduction.

Dear Friends,

In the closing weeks of the year, most of our charitably minded friends have already decided they will be making gifts to the University of Wisconsin Foundation again this year. They want to help support the UW-Madison.

Moreover, they have a great appreciation for the advantages to be gained from careful year-end planning.

For them, the key question is not **whether** to give, but **how best** to give.

The right answer to that question can transform a charitable gift into a powerful solution to your year-end planning goals. For some, simply writing a check is the best strategy; others require a more complex approach.

In this issue of *Legacy*, we want to help you identify ways to match your own planning objectives with your unique mix of assets to find the best solution for you to help make an important difference at the UW-Madison. Depending on your age, here are some solutions to get the most from your year-end planning.

Sincerely,

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