

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

Fall 2008

W I S C O N S I N

# Dividends



JEFF MILLER, UW-MADISON, UNIVERSITY COMMUNICATIONS

Create your own good news  
in troubled financial times

*7 charitable year-end strategies*

In the newspaper, on television, on the Internet—stories about the challenges facing the American economy are everywhere.

We have been buffeted about on the waves of rising gasoline prices and falling returns on income-producing investments. We have been bounced through the crests and troughs of an up-and-down stock market. Most of us are ready for some good news.

In the midst of these economic challenges, charitably minded people have ample reason to take heart. While unable to drive down the cost of regular unleaded, there are strategies to brighten your own personal economic forecast—strategies that can even take advantage of some of the current economic challenges.

In essence, you can create your own good news—if you incorporate the right strategies into your year-end tax planning.

In this issue of *Wisconsin Dividends*, we examine seven of the most powerful and most creative strategies that you can use before year-end.

## 1. Cut your 2008 tax bill while supporting our mission

A gift to the UW Foundation by December 31 will not only enable you to make an investment in our mission, it can also allow you to slash your federal tax obligation this year. If you itemize your deductions for federal tax purposes, the amount you save will depend on your marginal federal income tax bracket. (See Example 1)

### 2008 Federal Income Tax Rate Schedule

| Rate | Taxable Income      |                         |
|------|---------------------|-------------------------|
|      | Single Taxpayers    | Married, Filing Jointly |
| 10%  | \$0 - 8,025         | \$0 - 16,050            |
| 15%  | \$8,026 - 32,550    | \$16,051 - 65,100       |
| 25%  | \$32,551 - 78,850   | \$65,101 - 131,450      |
| 28%  | \$78,851 - 164,550  | \$131,451 - 200,300     |
| 33%  | \$164,551 - 357,700 | \$200,301 - 357,700     |
| 35%  | \$357,701+          | \$357,701+              |

#### Example 1

Joe and Donna T expect to have taxable income of about \$250,000 in 2008, which puts them in the 33 percent federal tax bracket. They decide to make an unrestricted gift of \$20,000 to support our operating budget this year.

**Result:** This gift saves Joe and Donna \$6,600 in federal income tax ( $\$20,000 \times 33$  percent). **Note:** They may be able to save state income tax as well.

#### Example 2

Karen B makes a gift to the UW Foundation of stock worth \$50,000 purchased seven years ago for \$12,000.

She is allowed a deduction for the stock's full \$50,000 value, which saves her \$16,500 in her 33 percent bracket. In addition, she avoids \$5,700 in capital gains tax she would have owed had she sold the stock. **Total savings: \$22,200.**

## 2. Plan your charitable gift to do double duty—give appreciated assets

In most cases, if you give appreciated assets that you have held for more than one year, you can deduct the full fair market value and avoid capital gains tax. (See Example 2)

## 3. Make a gift, recoup your investment and save taxes

In some cases it may be more convenient or beneficial to use a noncash asset to fund your gift, but you may not want to part with its entire value. One strategy to reach



your giving goal is simply to sell the asset to the UW Foundation at a bargain price. (See Example 3)

### Example 3

Frank J wants to make a gift of a parcel of undeveloped real estate worth \$300,000 to support the UW-Madison. He sells the land to us for \$100,000 to recover his original investment.

**Results:** Frank can claim a charitable deduction for the difference between the full fair market value of the land and the amount he receives in payment (\$300,000 - \$100,000). This \$200,000 deduction saves Frank \$70,000 in his 35 percent tax bracket.

Frank will have to report a capital gain of \$66,667 (one-third of the \$200,000 gain) and pay capital gains tax of \$10,000. But he will avoid tax on the other two-thirds of his gain, saving \$20,000 in capital gains tax.

There are special rules that apply to certain types of property. Be sure to check with your tax advisor as you plan your year-end giving.

## 4. Fund future gifts with your "deduction chain"

Did you know that it is possible to use the tax savings from your initial gift as your source of funds for future gifts? You can actually avoid future out-of-pocket cost and increase your giving potential by 50 percent simply by "regifting" your tax savings.

For instance, if you make an initial \$100,000 contribution and are in the 35 percent federal tax bracket, your gift can compound into more than \$150,000 of benefit to the UW Foundation in just four years. How? Each year, you simply use the previous year's tax savings to fund the next year's gift.

### Chain Funding a Gift

| Year              | Gift      | Tax Savings      |
|-------------------|-----------|------------------|
| 1                 | \$100,000 | \$ 35,000        |
| 2                 | \$ 35,000 | \$ 12,250        |
| 3                 | \$ 12,250 | \$ 4,288         |
| 4                 | \$ 4,288  | \$ 1,500         |
| <b>TOTAL GIFT</b> |           | <b>\$151,538</b> |

## 5. Increase your cash flow

With the current low interest rates on traditional investments, you may find that this is a perfect time to consider creative charitable planning strategies that allow you to make a gift, generate a charitable deduction and receive payments based on the value of your contribution.

Collectively these are called life income gifts. There are various options available to generate income for life; one of the most popular and versatile is the charitable gift annuity.

The amount of income from a gift annuity depends on the amount of the contribution and the age(s) of the beneficiary(ies).

### Benefits of a \$100,000 Charitable Gift Annuity

| Beneficiary(ies)<br>Age(s) | Rate  | Annual Payment | Tax-Free Amount | Charitable Deduction |
|----------------------------|-------|----------------|-----------------|----------------------|
| 65                         | 5.7%  | \$ 5,700       | \$3,289         | \$34,546             |
| 70                         | 6.1%  | \$ 6,100       | \$3,782         | \$39,880             |
| 75                         | 6.7%  | \$ 6,700       | \$4,449         | \$44,840             |
| 80                         | 7.6%  | \$ 7,600       | \$5,358         | \$49,611             |
| 85                         | 8.9%  | \$ 8,900       | \$6,755         | \$54,085             |
| 90                         | 10.5% | \$10,500       | \$8,316         | \$59,254             |
| 65-65                      | 5.4%  | \$ 5,400       | \$3,056         | \$23,897             |
| 70-70                      | 5.6%  | \$ 5,600       | \$3,388         | \$30,518             |
| 75-75                      | 6.0%  | \$ 6,000       | \$3,888         | \$36,246             |
| 80-80                      | 6.6%  | \$ 6,600       | \$4,567         | \$42,018             |
| 85-85                      | 7.4%  | \$ 7,400       | \$5,461         | \$48,135             |
| 90-90                      | 8.7%  | \$ 8,700       | \$6,716         | \$52,997             |

\* Based on 4.2 percent IRS discount rate (announced monthly)

## 6. Trade your "income interest" for a major deduction

If you have already funded a life income gift with the UW Foundation and find you no longer need the additional income, this may be an opportune time to give up that life income interest and generate another charitable deduction. **Reason:** The value of an income interest goes up when the IRS discount rate is down. (See Example 4)

### When a Beneficiary Relinquishes an Annuity

| Current Age | Annual Annuity | Charitable Deduction |
|-------------|----------------|----------------------|
| 75          | \$7,000        | \$57,630             |
| 80          | \$7,600        | \$50,389             |
| 85          | \$8,400        | \$43,336             |

#### Example 4

Several years ago when the IRS discount rate was 6.2 percent, Robert took out a \$100,000 gift annuity and we promised to pay him \$7,000 annually for his lifetime. He also received a charitable deduction of \$36,519 and saved \$14,279 in taxes at that time.

Robert is now 75 and no longer needs the annuity income. He wishes to give up his right to receive the payments and inquires about the tax consequences.

At the current IRS discount rate of 4.2 percent, the present value of his right to receive \$7,000 a year from the UW Foundation is \$57,630. Had the discount rate stayed at 6.2 percent, the value would have been \$51,187—substantially less.

By giving up the annuity income, Robert will realize a charitable deduction of \$57,630 that will save him \$20,171 in taxes this year. This means Robert will make a \$100,000 gift to the UW Foundation at a cost of only \$16,550 (\$100,000 less [\$34,450 total tax savings + \$49,000 income over the last seven years] = \$16,550). And the UW-Madison will be able to use the released funds immediately.

## 7. Make a significant gift without leaving home

A special tax-law provision gives you a significant deduction for making a gift of your home to the UW Foundation—*yet allows you to continue living there for the rest of your life*. You keep what is known as a “life estate” and transfer what is known as the “remainder interest” to us.

This is a potent planning strategy at any time; but, as with a gift of an income interest, it is even more

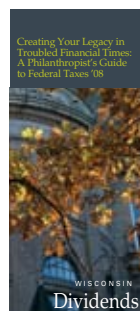
valuable when the IRS discount rate is low. (See Example 5)

#### Example 5

Dave and Sharon, both 72, are entitled to a deduction for 2008 of more than \$214,000 for a gift of a remainder interest in their \$500,000 home at the prevailing IRS 4.2 percent discount rate. In their 35 percent tax bracket, this saves them more than \$75,000; and they are able to remain in their home for the rest of their lives.



Photo credit: Jeff Miller, UW-Madison, University Communications



## We're here to help

The remaining days of 2008 may pass quickly. We encourage you to get started on the year-end strategies that best fit your situation right away.

To assist you in your planning, we would like to send you a complimentary copy of our booklet, *Creating Your*

*Legacy in Troubled Financial Times: A Philanthropist's Guide to Federal Taxes '08*. To get your copy, just return the attached card or call our office at 608-263-0371.

# Loyal Badger supporter adds to family legacy at UW-Madison

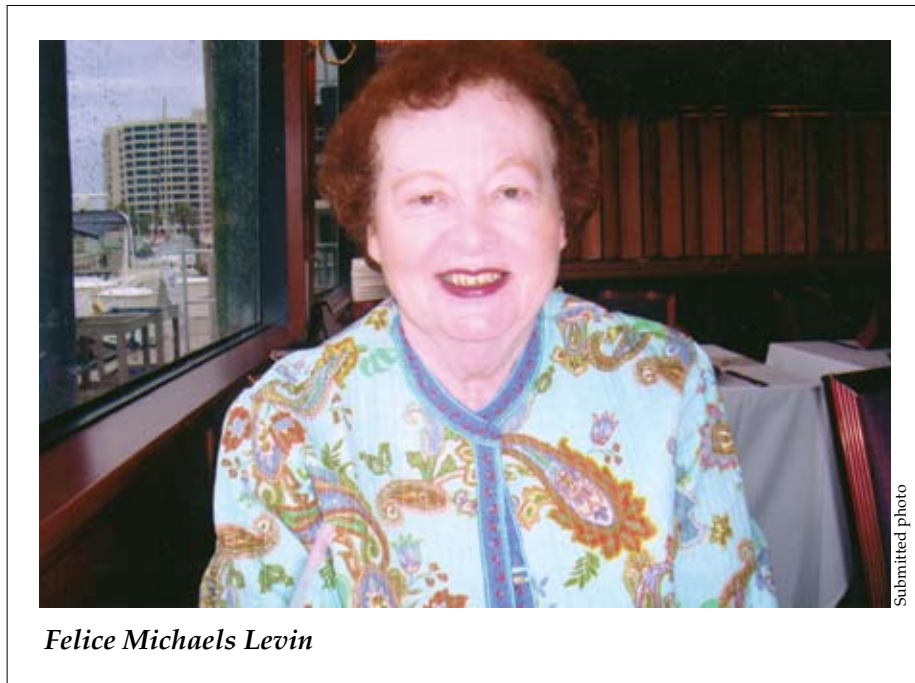
*Felice Michaels Levin has always been a loyal Badger and a booster of her alma mater.*

When she discovered a way to increase her own income and support the University of Wisconsin-Madison at the same time, she jumped at the opportunity.

Felice already had established bequests to several units on campus as part of her estate plans. She had a trusted friend look at her portfolio and tell her that she needed more income.

“The charitable gift annuity I took out through the UW Foundation gives me far more income than my stock had been,” she said from her home in New York. “I just love it. It’s a wonderful vehicle for giving. It provides a defined benefit while you’re alive and supports a cause close to your heart when you’re gone.”

Felice (BA '49 L&S, MA '67 L&S) spent her professional life in media and communications. She started out writing radio commercials for WISC radio in Madison, reported for many years at the *Wisconsin State Journal*, was director of publications for UW Extension, worked in publications for the State Historical Society of Wisconsin, served as a writer and program evaluator from 1968 to 1985 at the Ford Foundation and finished her career as senior



*Felice Michaels Levin*

writer for the UJA-Federation of Jewish Philanthropies in New York.

She also served on several state advisory panels during her years in Madison.

While she didn’t award grants at the Ford Foundation, Felice was quite aware of how difficult it could be to decide which ventures should receive support.

“The process of choosing areas to direct your gifts is not that different from a foundation officer deciding among many worthy projects to fund,” she said. “The University of Wisconsin is a marvelous place, with a great range of areas in which you can invest. You need to really think about what you’d like to do with your funds and choose the areas that matter the most to you.”

For Felice, that came down to two core disciplines and two ways to honor her late husbands.

A primary focus was her designation to support students in the Department of English in the College of Letters and Science. “No matter what happens in the technological or media worlds, kids have to learn the language,” she said. “That’s basic.”

Another building block area of study Felice has supported is the Department of Mathematics, also in the College of Letters and Science. “For some reason, mathematics doesn’t seem to get the kind of support that other, more technologically advanced areas get. When I was in high school, I thought I might major in math. That ended

*(continued on page 6)*



# Loyal Badger supporter adds to family legacy at UW-Madison

*continued from page 5*

soon after I got to campus," she said with a laugh.

To respect her husbands' interests and achievements, Felice has established the Joseph Goodman and Felice Michaels Goodman Levin Scholarship Fund for students enrolled in the Law School and the Harry Levin and Felice Michaels Levin Scholarship Fund for graduate students in the School of Library and Information Studies.

Her first husband, Joseph Goodman, died of cancer in 1964 at the age of 43. He was a graduate of the UW Law School, a former assistant district attorney for Dane County and a founding partner of the law firm that is now Wheeler, Van Sickle and Anderson, SC. After Joe died, "I went back to the University and got my master's in journalism," Felice noted, "and then in 1967 I made the gutsiest move of my life. I sold my home in Madison and headed for New York without a job or an apartment. Within a year, I met and married Harry Levin, a corporate public relations executive, and began my long consultancy with the Ford Foundation."

Harry Levin "had no connection to the UW, but he just loved libraries. He spent many happy hours in libraries from the time he was a little kid being raised in Cleveland," she said. "He kept that interest throughout his days." Harry died, at the age of 91, in 2000.

Felice grew up in Chicago and started at the University in the fall of

1945, just after the end of World War II. "I arrived on campus just as all of the veterans were coming back," she said. "They were older and more serious about their education. It was a very exciting era, and I had a wonderful time. The classes I took, the friends I made, the campus activities I participated in and the vision the University provided have inspired me throughout my life."

Felice is delighted that her charitable gift annuity adds to her financial resources now. "You couldn't have a safer or more satisfying investment with such an excellent rate of return," she said, "and there is the all-important additional element: the gift will benefit the University and its students for generations to come."



Visit our Web site at  
**[www.uwfoundation.wisc.edu](http://www.uwfoundation.wisc.edu)**

## *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.uwfoundation.wisc.edu/survey](http://www.uwfoundation.wisc.edu/survey). Please use the identification number located above your name on the *Wisconsin Dividends* mailing label to log in to the Web site. 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!



Photo credit: Jeff Miller, UW-Madison, University Communications

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**You should consult your attorney about the applicability to your own situation of the legal principles contained herein.**

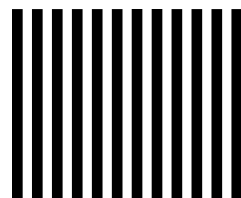
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*The University of Wisconsin Foundation engages those who care about the University, provides opportunities to enhance its teaching, research and outreach programs and guarantees ethical stewardship of the gifts received.*

## Dear Friends,

In this issue of *Wisconsin Dividends*, we invite you to prevail over this year's mercurial economic climate by taking charge of your own financial situation with one of the most powerful—and often one of the most overlooked—areas of financial and tax planning: charitable gift planning. Using the seven plans we outline, you can realize your hopes of creating your legacy at the University of Wisconsin-Madison, while also maximizing your tax savings and even significantly increasing your spendable income, depending on your particular goals and circumstances.

Please allow us to help you plan your gifts to the UW Foundation in a way that will best allow you to make a difference to the UW-Madison and improve your financial outlook. Return the attached reply card for a copy of our information-packed handbook, "Creating Your Legacy in Troubled Financial Times: A Philanthropist's Guide to Federal Taxes '08," which explores through charts and examples the tax-saving strategies available to



donors to charity. We also invite you to call our office to let us know how we can help. Sincerely,

Russ Howes  
 Vice President  
 Planned Giving and Legal Affairs



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