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

SUMMER 2008

WISCONSIN

# Dividends


JEFF MILLER, UW-MADISON UNIVERSITY COMMUNICATIONS

## Doing double duty

*Achieve personal and charitable objectives with a charitable remainder unitrust*

Life presents all of us with similar challenges: managing investments, preparing for retirement, providing for the needs of family members. Many professional advisors stand ready to help you chart a course to reach your goals.

But if your plans also include significant philanthropic objectives, you may actually have a leg up on others in the planning process. ***Reason:*** Often you can use strategies that address personal and charitable objectives in tandem and achieve far more with a joint approach than you could by addressing them separately.

**Provide for the future of UW-Madison and your personal financial goals with a charitable remainder trust.**

One of the most powerful and versatile planning tools is a charitable remainder unitrust. If you set up this type of trust, you can create a source of payments for yourself or for other beneficiaries you designate and generate a substantial charitable deduction in the process. The payments can continue for a predetermined period of time—up to 20 years—or they can be arranged to last as long as the beneficiary or beneficiaries live. Those payments are based on a fixed percentage of the trust's value as it changes from year to year.

One of the most attractive features of a charitable remainder trust is that you can use highly appreciated stock (or, in many cases, other long-term capital gain property) to fund it and not have to recognize or pay tax on any of your paper gain when the trust is created. Better yet, when the trust sells the appreciated property, it won't have to pay capital gains tax since it is tax-exempt.

There are special provisions you can include in a charitable remainder trust that make it extremely flexible in addressing your own planning needs. For instance, such a trust can provide that payments will be made to beneficiaries only to the extent the trust has "income." You can further modify this "net income" charitable remainder unitrust by adding make-up provisions that allow the trust to distribute any excess income beyond the stated unitrust percentage to the beneficiary to the extent there were any deficiencies from prior years.

You can even have a trust start out with "net income" or "net income with make-up" provisions and then switch, or "flip," to a standard charitable remainder unitrust in the future. All of these provisions give you tremendous flexibility to control the amount and timing of payments.

To see how the special features of this gift vehicle might fit in with your plans, let's take a look at a few typical planning challenges.

## Diversification dilemma

**Too many eggs in one basket**

As stock increases in value, many investors find themselves in the uncomfortable position of having too much of their portfolios tied up in too few stocks. Faced with this dilemma investors look for more diversification but are often reluctant to sell and recognize what could be substantial taxable gain. What further exacerbates the problem is that many of the stocks that go up the fastest and the farthest pay little or no dividends.

**Funding a charitable remainder unitrust with appreciated stock maximizes your tax savings.**

For those with major charitable goals, a charitable remainder unitrust may offer an attractive way out of this diversification dilemma. (See Example 1)

## *Example 1*

Joe T, aged 68, hardly expected XYZ, Inc. stock to go to $125 per share when he purchased 10,000 shares at $10 per share in the mid-nineties. True, it has pulled back to $80 per share, but Joe still does not like having $800,000 tied up in just one stock. He would like to sell a substantial portion of his position but is reluctant to do so since a sale would generate capital gains tax of $10.50 per share. To complicate things even further, XYZ, Inc. pays no dividends and, now that Joe is retired, he would like to get more income from his investments.

After explaining his objectives to his advisors and a member of our staff, Joe decides to use 5,000 shares of XYZ, Inc. to create a charitable remainder unitrust that will pay him 5 percent of its annual value each year for the rest of his life. By placing $400,000 worth of stock in the trust, Joe avoids $52,500 of capital gains tax and generates a charitable deduction of $202,780. That saves him $70,973 in federal income tax.

The first year Joe will receive $20,000 (5 percent of $400,000), and that could increase in the future. If the trust achieves a 9 percent total return and Joe lives his normal life expectancy, his annual payment will reach $37,460 and $779,160 will eventually pass to the UW Foundation.

***Planning pointer:*** The trustee would be able to sell the stock without incurring capital gains tax and reinvest the proceeds in a diversified portfolio. If Joe wants to achieve even further diversification, he can sell even more of the XYZ, Inc. stock he retains and use his deduction to offset any gain he realizes on the sale.

# Feathering the nest

### Use a trust for retirement security

Several of our friends tell us they wish there were tax-advantaged ways to save for retirement beyond the limits of traditional plans in which they are eligible to participate. Some are feeling that even more acutely as they have watched the balances in their retirement plans retreat as their companies struggle to compete.

Charitable remainder unitrusts are ideally suited to supplement the retirement income of charitably minded persons. Some of the unique features of these trusts may allow you to generate valuable deductions during your working years and delay income until retirement when it is needed more. An added bonus is that delaying the income typically increases the amount you will receive when the payments start.

Take the case of Mary G, aged 50, who is a very successful business owner. Mary makes all the tax-deductible contributions allowed each year to retirement plans, but she is still uneasy about her retirement security. After explaining this to a member of our staff and talking with her advisors, Mary decides to begin a plan of making regular contributions to a unitrust until she retires at the age of 65.

Mary starts out with an initial contribution of $100,000 the first year, and she plans to make $10,000 contributions each coming year until she retires. Because she does not need additional income now, Mary sets her trust up to pay her the lesser of 7 percent of the trust's value or its actual income while she is still working and then "flip" to a standard charitable remainder unitrust when she turns 65. Knowing Mary's objectives, if the trustee invests in growth-oriented, non-income-producing investments, little or nothing will be distributed to Mary while she is still active in her business, allowing the trust to grow more rapidly.

**Receive deductions now and save income for retirement with a trust.**

If the trust achieves an 8.5 percent total return, it will be worth $565,378 when Mary retires and she will receive income of $39,576 that year. If she lives her normal life expectancy, her annual income will reach $44,065 and $633,497 will eventually come to the UW Foundation to meet her charitable objectives. As Mary makes contributions over the next 15 years, she will generate significant charitable deductions.

## *Example 2*

Gene and Donna are proud that their 50-year-old son Bill is doing well, but they know the financial challenges he faces trying to build his business while putting his two children through college. Rather than wait to make provisions for Bill in their estates, they would really like to help now; but they also want Bill to continue to receive benefits after they are gone—and they want to do something meaningful for the University.

They decide to put $1,000,000 into a charitable remainder unitrust that will pay Bill 5 percent of its annual value each year for the rest of his life. Bill will receive $50,000 the first year, and that could go up to as much as $175,403 during his life expectancy if the trust achieves a 9 percent total return.

Except for $12,000 that qualifies for the annual exclusion, the value of Bill's unitrust interest—$720,090—is treated as a taxable gift. However, Gene and Donna can apply their $1,000,000 lifetime gift tax exemption and owe no out-of-pocket tax. They also get a $279,910 tax deduction, and more than $3,600,000 could eventually come to the UW Foundation to fund their charitable objectives.

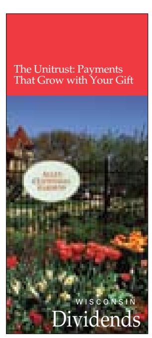
# A gift that outlives you

**Meet family needs and provide for us**

Parents sometimes face a significant challenge in providing for the needs of their adult children. They really would like the satisfaction of doing something for the children during their own lifetimes, but they want the benefits of their generosity to outlive them. A charitable remainder unitrust is one creative way to address this problem. (See Example 2)

One additional advantage of this plan is that it can effectively "freeze" the value of the benefit passing to the beneficiary(ies) for estate tax purposes.

Photo credit: Jeff Miller




# We're here to help

These are just a few of the creative ways you can use a charitable remainder unitrust in your own planning. If you would like to learn more, we would be pleased to send you a complimentary copy of our booklet, ***The Unitrust: Payments That Grow with Your Gift.*** Simply return the attached postage-paid card or call our office to get your copy.

# Supporting tomorrow's teachers and researchers, one fellowship at a time

*Because of the high cost of advanced engineering education, talented young people of recent times accept positions in industry instead of pursuing graduate degrees and eventually positions in academia. If this trend continues, we may face a shortage of qualified engineers to teach their successors and staff the nation's research laboratories.*

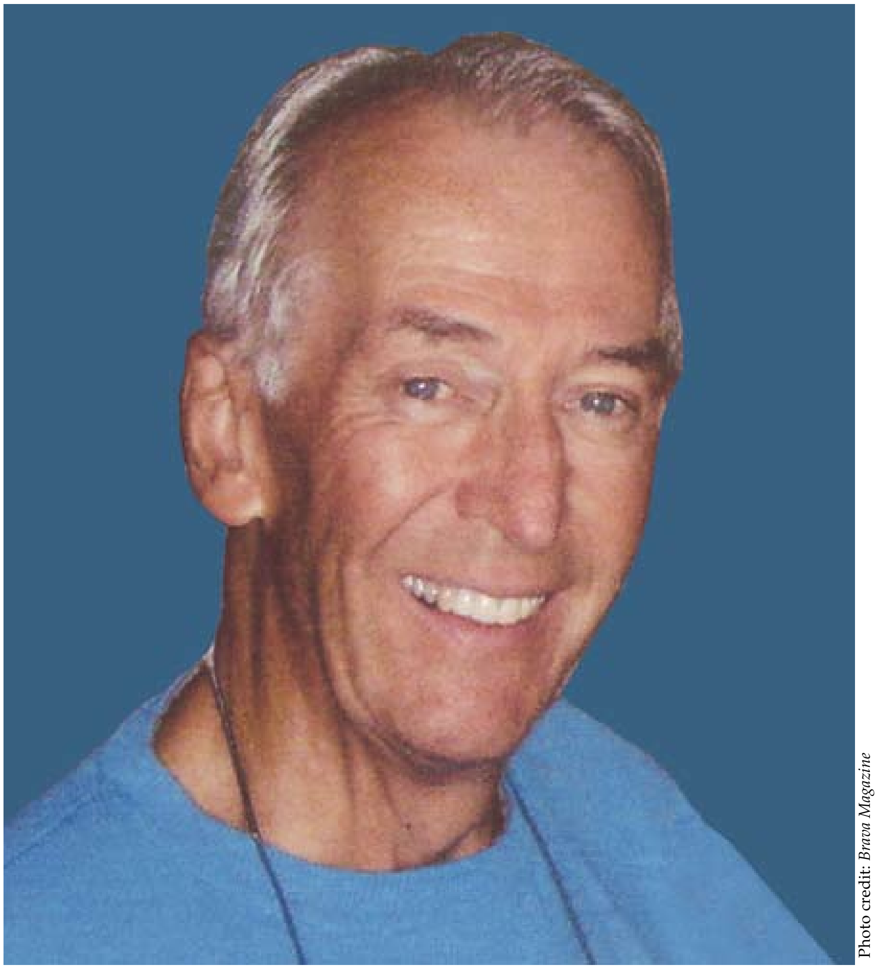


Photo credit: *Brava Magazine*

***Richard Stueber's gift will provide fellowships at UW-Madison for students in the College of Engineering.***

Richard Stueber does not want to see this happen. Richard gave appreciated stock to the University of Wisconsin Foundation to establish the Richard J. Stueber Charitable Remainder Trust. Upon his death and the death of his wife Enid, the proceeds will go to the College of Engineering to provide fellowships. He earned all three of his degrees in metallurgical engineering from the University of Wisconsin-Madison.

"Historically, there has been limited funding for fellowships to support MS and PhD students," he said. "I hope that my endowment will provide fellowships that encourage and reward students for pursuing innovative projects."

"There are a lot of exciting things happening within the College of Engineering," said Stueber. "I hope that my gift will help the students explore what is possible in tomorrow's world."

In 1957, he enrolled at UW-Madison after serving four years in the military. He saw the campus evolve from a calm, quiet campus to a turbulent Vietnam-era campus. But that didn't jade his view of his education.

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# Supporting tomorrow's teachers and researchers

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"I enjoyed learning, and I'm grateful for the small scholarship that I received during my undergraduate years," he said. "The department did the best they could with the funds they had available. I felt they did a good job, and I'm glad that I'm now in a position to help increase the department's award capabilities."

Richard recalls how good the professors were in his engineering classes. Richard Heine and Philip Rosenthal were two of the professors that had an influence on him.

Following graduation, he went to work at E. I. du Pont de Nemours and Company at the Savannah River nuclear facility. However, an opportunity emerged in the embryonic gas turbine support business—exciting for a metallurgist in super alloys. After 25 years of repair and coating activities worldwide, he retired as senior vice president at Chromalloy Gas Turbine Corporation, New York.

In 1993, an exciting opportunity to consult in Arizona developed and the family moved there. After 10 more fascinating years in the turbine industry, he retired.

Over the years, Richard and his wife Enid have enjoyed traveling all over the world. "There's an old saying in our family; a rolling stone gathers no moss. That's how we are," he said. "It's amazing that no matter where we are in the world we run into people who know faculty members from UW-Madison."

"I hope this gift will continue the tradition of educating students who will become tomorrow's professors—the ones who are talked about around the world," he said.

Planned gifts such as the Stueber gift come with win-win tax benefits, according to Bonnie Bruce, senior director of development for planned giving at the UW Foundation. "A transfer of securities to the Foundation allows the donor to make a gift, receive a charitable deduction and receive an income for life," she said. "The donor pays no capital gains tax on the appreciated stock, nor does the Foundation if it chooses to sell the securities. This is just one way that you can make a difference at UW-Madison."


*Visit our Web site at*

**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. 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

We would like to send you a complimentary copy of our booklet,

## The Unitrust: Payments That Grow with Your Gift.

**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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**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,

Whether you are faced with saving for retirement or providing for family, it is important to put trust where you need it most.

Namely, *in* a trust.

A charitable remainder unitrust with the UW Foundation is one of the most flexible planning tools you can use to address the various needs of your life. This issue of *Wisconsin Dividends* explains how you may use this gift vehicle to garner deductions now while preparing for the future. At the same time, your generosity will help ensure that the University can continue to successfully pursue its mission for years to come.

Your trust is a valuable commodity that the University works hard to earn. Please call with any questions or concerns or if I can provide further details about the information in this newsletter.

I look forward to the opportunity to serve you.

Sincerely,

Russell N. Howes

Russ Howes
Vice President
Planned Giving and Legal Affairs

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