Charitable Gift
and Financial
Planning Ideas
from the
University
of Wisconsin
Foundation

Summer 2011

Wisconsin Dividends

Tax Act 2010:
everything old is new again

Taxpayers were on the edge of their seats when Congress finally passed tax legislation in late December in a breathless ending charged with suspense. When the dust finally settled, what had nearly two years of debate and lobbying produced?

Ironically, not that much is new—but that in no way diminishes the significance of the new law. Its impact is not so much on what it introduced that is new as on heading off changes due to take place under the expiring tax law, including:

- **Higher income tax rates—** The new law continues pre-2011 brackets through 2012.
- **Higher taxes on capital gain and qualified-dividend income—** The new tax law continues the preferential 15 percent top tax rate on qualified dividends and capital gain (0 percent for those in the 10 percent or 15 percent federal income tax bracket).
- **Return of the federal estate tax with a $1 million exemption and rates up to 55 percent—**The new law establishes a $5 million exemption and a top estate tax rate of 35 percent that will expire after 2012.

There are also a few nuggets that fall into the category of "brand new." Notably, the new law incorporates a one-year reduction of 2 percent of the employee share of the Social Security payroll tax—with a similar reduction in the Social Security tax for those who are self-employed.

IRA charitable rollover—extended through December 31, 2011

First introduced in 2006 as a two-year opportunity, the IRA charitable rollover—an important and popular charitable option—has been extended through 2011. This means you can continue to make direct transfers from your IRAs to the UW Foundation and not have those transfers treated as taxable income.

To qualify for this special treatment you must meet certain requirements:

- You must be at least 70½ at the time the transfer is made.
- The maximum amount you qualify for is $100,000.
- Transfers must go directly from your IRA to a qualified charitable organization, such as the UW Foundation.
- Your gift must be outright. (Transfers to donor advised funds, supporting organizations, charitable remainder trusts and gift annuities do not qualify.)

IRA charitable rollover distributions are not treated as taxable income, so there is no separate charitable income tax deduction for such a transfer.

Special Bonus: If you are required to take minimum withdrawals from your IRA but don't need additional income, a direct transfer from your IRA to the UW Foundation can satisfy up to $100,000 of your minimum required distribution, reducing your taxable income for the year.

Estate and gift taxes: new rules

One of the most crucial accomplishments of the new tax law was resolving—albeit temporarily—the torrent of uncertainty swirling around the future of the federal estate tax.

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!

Few people thought that Congress would extend the repeal of the estate tax, but there was no consensus on where it would land on the specifics of a plan moving forward. A $5 million exemption is in effect for 2011 and will be indexed for inflation in 2012. In addition to their own $5 million exemption, surviving spouses will even be able to use any part of the $5 million exemption not used by the first spouse to die.

Estates of those who died in 2010 will have the choice of using the rules under the new law or proceeding under the estate tax repeal rules previously in effect for that year—which also include complicated carry-over basis rules that could lead to a higher tax on gain when estate assets are sold. (See Example 1.)

Include a charitable provision in your estate plans. In addition to a gift through your will, you can include a provision in a trust or make the Foundation a beneficiary of a life insurance policy or retirement plan. By giving us an interest in virtually any asset that you own, you can reduce the size of your taxable estate.

Example 1

Walter dies in 2011 with a total estate of $10 million. His will includes a provision for a gift of $1 million to the UW Foundation. Since Walter's total estate exceeds the $5 million exempt from federal estate tax, the gift to us reduces the amount of tax his estate owes by $350,000—35 percent of $1 million.

Why is it often best to make a gift of an interest in an IRA or other qualified retirement plan? In most cases, the assets in such accounts have never been subject to federal income tax. This means that whoever receives these assets will have to recognize them as taxable income—with some adjustment for federal estate tax paid if any is due. If you plan to make an estate gift to the UW Foundation, this type of gift can produce significant savings for your other beneficiaries. (See Example 2.)

Example 2

Betty has an estate of $2 million, including an IRA worth $200,000. She would like to give 10 percent of her estate to the UW Foundation, so she names us the beneficiary of her IRA account with the balance of her estate passing to her only child, David.

Since we are tax-exempt, we pay no tax upon receipt of the IRA proceeds. On the other hand, if Betty had left us $200,000 from other sources and made David the beneficiary of her IRA, David would have incurred up to $70,000 in federal income tax.

Reunification of gift and estate taxes.

The new law reinstates the unified estate and gift-tax system: Lifetime gifts and gifts at death are added together to determine the cumulative total subject to tax with no out-of-pocket tax due until a combined total of $5 million in taxable transfers has been reached. The gift tax previously had a $1 million lifetime exemption.

Planning pointer: Keep in close communication with your advisors to monitor future changes related to estate and gift taxes because most of the provisions are subject to change after 2012.

Traditional planning tools still work!

The new tax law preserves nearly all of the tried-and-true planning strategies employed by taxpayers who are both philanthropically minded and tax-savvy. You will want to keep several of these in mind as you address your charitable goals in 2011.

Cost of a $10,000 gift

Tax Bracket	Tax Savings	Net Cost
25%	$2,500	$7,500
28%	$2,800	$7,200
33%	$3,300	$6,700
35%	$3,500	$6,500

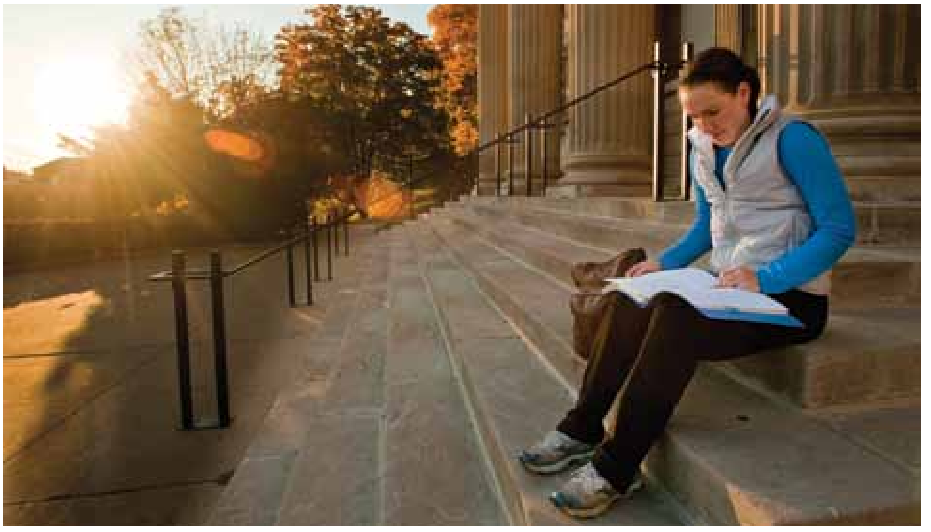
- **Generate current deductions to reduce income taxes—**Charitable deductions reduce the out-of-pocket cost of making gifts directly proportional to your marginal income tax bracket if you itemize deductions on your federal return. (See chart above.)
- **Give appreciated property to charity—**You can realize extra tax benefits if you give assets such as stock or real estate that you have owned for more than one year. Under the new law, you can still deduct the full fair-market value of the property, but you do not have to recognize or pay tax on the gain. (See Example 3.)

On our cover: Generations of novice and experienced sailors have enjoyed boating on Lake Mendota near the Memorial Union.

Example 3

In 2011 Debra decides to give the UW Foundation stock she purchased five years ago for $25,000, now worth $100,000. She is able to claim a deduction of $100,000 for the gift, which in her 35 percent tax bracket saves her $35,000.

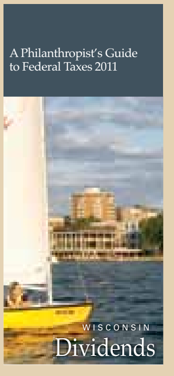
Had she first sold the stock and given us the cash proceeds, Debra would have had to pay $11,250 of tax on her gain of $75,000. She avoids this tax by giving the stock to us. **TOTAL TAX SAVINGS:** $46,250.



A student enjoys the beauty and early morning solitude of the UW-Madison campus.

Next steps:

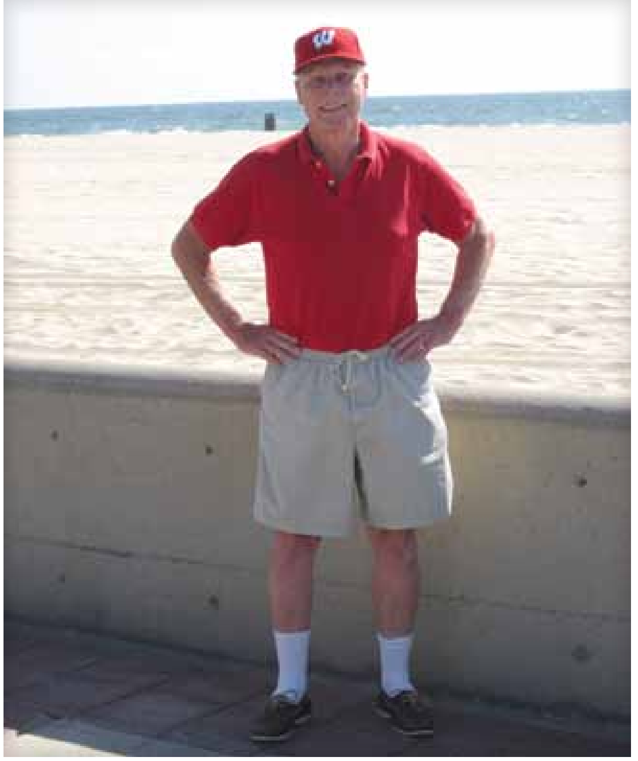
Are you wondering what your next best step is? Maybe you'd like more information, or maybe you'd like to speak with us directly. Here are a few options:



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, ***A Philanthropist's Guide to Federal Taxes 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.

Gift annuities a sound vehicle for this engineer

G.R. "Duke" Williams ('71 MS ENG) is a hands-on kind of guy, but he finds that it makes sense for the University of Wisconsin Foundation to handle an increasing percentage of his portfolio through gift annuities.



G.R. "Duke" Williams is seen here alongside The Strand path bordering Hermosa Beach, California. He lives nearby in Redondo Beach.

That way, he can enjoy a secure retirement with fewer worries and at the same time support the College of Engineering.

Williams earned his bachelor's degree in mechanical engineering at the University of Washington before heading to UW-Madison to study at the Engine Research Center. "The top three engine research schools in the country at the time were Michigan, MIT and Wisconsin," he said from his home in Redondo Beach, California. One of the deciding factors was the degree in mechanical engineering that his father earned in 1927 from UW-Madison.

Williams grew up in Seattle and was in the ROTC program as an undergraduate. Before heading to Madison, he took a job arranged by professors Phil Myers and Otto Uyehara, "my advisors at Wisconsin," for the summer of 1968. He worked for Pontiac Motor Division as a production engineer, overseeing 1969 Firebird production startup at the now-closed Van Nuys assembly plant.

After earning his UW-Madison master's degree, Williams went into the Air Force as a missile maintenance officer in Grand Forks, North Dakota. "Then I had an opportunity to transfer out to Los Angeles Air Force Station in El Segundo, California, where we manage all the military space programs," he said. "So I transferred out here in 1974 and decided that in order to round out my education, I needed an MBA."

He earned that degree at the University of California, Los Angeles in 1978 through a program geared to full-time employed professionals. "I had no interest in going back to Detroit after I left the Air Force in 1979 and wanted to remain in California, so I got into the computer industry.

"I was involved with sales and marketing of computer-aided engineering systems to manufacturing companies," he said. "I was exposed to a broad spectrum of manufacturing companies, with aerospace being a big part, and there was no limit to the number of new challenges. It's interesting that all of the companies I worked for—including Digital Equipment Corporation, IBM, even ultimately GM—were dismembered, bought out, went bankrupt or almost did."

Williams accepted a buyout from IBM in 1991, the year his father died. His mother fell ill in early 1993, and he went to Seattle to take care of her.

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Gift annuities a sound vehicle for this engineer

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"When I returned to California in the summer of 1993 after my mom passed away, the economy was still very depressed," he said. "So I took what I had saved over the years and the gift that I received from my parents and decided I could maybe make it as a private investor. The '90s were a bit touch and go, but I turned the corner in 2000 and never looked back. I haven't worked for anyone since age 45. I effectively retired early, although that really wasn't my plan."

In short order, his portfolio grew by playing the interest rate cycles in the fixed income market. "I knew I had to prepare an estate plan, and in the back of my mind was setting up some sort of endowment funds in the name of my family at the three universities, which I finally got around to doing," he said. "I actually wrote my own estate plan. I'm a do-it-yourself kind of guy."

For UW-Madison, Williams consulted with professors Myers and Uyehara and established a bequest for fellowships to support graduate students at the ERC. "Since I was supported through a fellowship, it was a great way to give something back," he said.

Over time, taxes were taking a bigger bite as his income grew. "Somewhere between 2003 and 2005, I got a newsletter from the UW Foundation. That was the first time that I ever read about charitable gift annuities. I learned about those from you guys," he said.

"I'm not only a mechanical engineer. Having an MBA, I'm a financial engineer too. I'm looking at my financial situation, and my income taxes are going up at an increasing rate because I don't have enough deductions to itemize. I saw an annual gift annuity program as a way to accomplish several objectives simultaneously over a period of time."

Gift annuities made perfect sense. "Number one, gift annuities would reduce my taxes significantly because of the charitable deduction. Number two, I slowly yield management and risk of my portfolio to the UW Foundation and support UW-Madison," he said. "As I get older, that's a good thing, because I might get to the point where I start making mistakes.

"I get the gift annuity income backed up by the assets of the Foundation, and the Foundation assumes all the portfolio management tasks and risk. My financial skills allow me to continuously monitor the financial position of the Foundation, and it is very secure—much more so than typical banks and insurance companies and especially Wall Street."

Williams got out of Treasury Notes and stocks in 1999 and bought 5-year CDs in the summer of 2000 when interest rates peaked. When they matured in 2005, he waited until the summer of 2006 and bought a tiered portfolio of CDs that he converts as they mature, annually, to charitable gift annuities through the UW Foundation, which are an ever-increasing part of his financial mix.

As might be expected for someone who studied engines, Williams is an automotive enthusiast, and he still makes good use of his Wisconsin education. "I now do engine system engineering for vintage Corvette owners, including vintage racers," and many members of the National Corvette Restorers' Society have benefited from his knowledge.

He still owns the 1963 Corvette he bought new, while still in high school, with the money he earned beginning at age 11, and he has raced that car and his '76 Cosworth Vega, '88 Mercedes 190E 2.6 and '91 Toyota MR2. "Every car I have owned I raced, but not anymore," he said. "I drive maybe 1,000 miles a year now because of traffic and the fact I can walk most places."

As he likewise downshifts on managing his portfolio, Williams extols the charitable gift annuity as a worthy vehicle. "It works particularly well for me because I have no heirs, and I can't take it with me," he said. "Rather than having to deal with all the portfolio management issues and pay all the taxes, it makes a lot of sense to slowly turn my portfolio over.

"It's an excellent strategy for me or any single person. It's also worthwhile for someone who wants to both leave something to their kids and still donate to a charitable organization like the UW Foundation," he said. "Instead of making a one-time gift, they can do it in the form of gift annuities over their lifetime, take advantage of the annual charitable tax deduction and have the security of the lifetime income. In the long run it's a win-win situation for both the donor and the University of Wisconsin."

The College of Engineering campus is popular with visitors in warm weather.

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

A Philanthropist's Guide to Federal Taxes 2011.

To receive your copy, simply return the attached card or call:

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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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INSIDE THIS ISSUE

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Dear Friends,

My name is G.R. "Duke" Williams, and I earned my master's degree in mechanical engineering at the University of Wisconsin-Madison.

Inside you'll read about how I used my education to shape my career and how I came to manage my own investments. Through the UW Foundation, I became aware of charitable gift annuities.

I saw an annual gift annuity program as a way to accomplish several objectives simultaneously over a period of time. Number one, gift annuities would reduce my taxes significantly because of the charitable deduction. Number two, I slowly yield management and risk of my portfolio to the UW Foundation and support UW-Madison.

Charitable gift annuities through the UW Foundation work for me, and they might be a good vehicle for you to discuss with your financial advisor.

Sincerely,

G.R. "Duke" Williams