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

Summer 2012

WISCONSIN Dividends

Five powerful planning strategies: Put predictability in your financial future

One of the best ways to put meaningful predictability into your financial future is with creative charitable planning. In this issue of *Wisconsin Dividends*, we will look at some bold moves that could strengthen your position for a secure future.

1. Bump up your returns

Those with significant charitable objectives have options not available to others—options that are more attractive than ever. A number of creative giving plans are available to return an attractive stream of income to donors. (See Example 1.)

2. Hedge your bets with gifts of appreciated stock

One of the best ways to improve your investing position is to use your appreciated stock instead of cash to fund a major charitable gift you are planning—then take the cash you had planned to give and replace the stock you gave away.

Either way the market moves, you will be better off than if you had kept the stock and given the cash. ***Here's why:*** Making a charitable gift of long-term appreciated stock entitles you to deduct its full fair-market value—not the original cost. When you buy the replacement stock, you establish a higher basis; if it goes up in value, you will be taxed on a smaller amount of gain if you sell later—a factor that could be doubly meaningful if the tax rates on capital gain income increase, as many think they will.

The Law School stands out on Bascom Hill.

Example 1

Jeff T, 70, counts on his investments to provide a meaningful portion of his retirement income. In the last few years, he has seen that income steadily decline.

Jeff is a longtime supporter of the University of Wisconsin-Madison and has always wanted to find a way to make a substantial gift. Accordingly, when a $200,000 CD recently came due for renewal at 1.5 percent, Jeff decided to transfer those funds to us in exchange for a charitable gift annuity that will pay him $10,200 each year for the rest of his life. His gift entitles him to a charitable income tax deduction of slightly more than $73,000.

In his 33 percent federal income tax bracket, the deduction saves Jeff about $24,090, reducing his out-of-pocket cost for the gift annuity to about $175,910. Even better, $7,935 of his annual annuity income will be tax-free for the balance of his life expectancy—effectively making the value of his annuity equal to a fully taxable return of around 7.05 percent from a traditional income-producing investment.

Even if the stock goes down, you are still ahead of where you would have been. Loss you incur if you sell will be measured against the new higher price you paid to replace the stock—not the price of the gifted stock. This will create a larger loss for tax purposes that can be netted against any gain or used to offset a limited amount of ordinary income.

3. Sell those losers before giving

Most people are familiar with the strategy of giving appreciated stock to charity instead of giving cash to get extra benefits. When you do that, you may deduct the full value of the stock and you don't pay any tax on its paper gain.

But there is an equally potent corollary to that plan in a down market. Instead of giving stock that is worth less than you paid for it, sell it first and give the proceeds. This provides double benefits:

- You can use the loss on the sale of the stock to offset other capital gain.
- The cash gift generates a tax-saving deduction. (See Example 2.)

4. Provide for loved ones and for the UW-Madison

Historic low interest rates present other creative planning opportunities for those looking to address personal and charitable

Pleasant days bring students outside to study.

Example 2

Mary H is a generous friend of the UW-Madison and makes a gift of $25,000 each year to support the University. Typically she makes her gift in either cash or appreciated stock.

The value of several of Mary's stocks has slipped below what she paid for them. In fact, her shares in XYZ, Inc. are now worth half of the $50,000 she paid for them five years ago.

Mary decides to sell that stock and give us the $25,000 proceeds of the sale. She can use the $25,000 loss she realized on the sale to offset gain from other investments—or even to offset up to $3,000 of ordinary income if her loss is greater than her gain. In addition, she can deduct the $25,000 gift, saving her $8,250 in her 33 percent federal tax bracket.

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goals simultaneously. And with good planning, you can minimize the effect of the federal gift tax and any future changes in the federal estate tax law.

Tap into current opportunities to meet your family and philanthropic goals.

Low interest rates create opportunities for donors to pass significant assets to family members, with dramatic savings in federal gift tax and/or estate tax. Taxpayers are realizing unprecedented savings by giving charities a stream of income from assets that will eventually be distributed to family members.

5. Invest in your future

Many taxpayers in their peak earning years wish they could find more tax-advantaged ways to set aside money for retirement. To the extent retirement planning opportunities are available to you through your employment or through options open to most Americans, you will want to take full advantage of those.

If you would like to accumulate still more and you also have major charitable goals, there are creative options for reaching your objectives. (See Example 3.)

On our cover: The University of Wisconsin-Madison comes alive with natural beauty in the summer.

Example 3

Karen B, 50, has a very successful consulting practice. She makes the maximum allowable contributions to all retirement plans open to her but is concerned that it may not be enough to allow her to enjoy the kind of retirement she envisions.

Karen is a major supporter of the UW-Madison and would very much like to complete a substantial gift to complement the contribution she makes annually. After conferring with her advisors and a member of our staff, Karen decides to put a plan in place that will meet her personal and charitable objectives: She contributes $100,000 to a special trust designed to supplement her retirement income.

The trust will pay her 6 percent of its annual value each year, but until she turns 65, it will make the payments out of the trust's income. Since Karen really doesn't need—or want—additional income right now, the trust is invested in a manner that focuses on growth rather than income over the next 15 years, and she will receive few or no distributions during this time frame. She will start receiving income when she reaches her anticipated retirement age of 65.

Assuming the trust generates an 8 percent total return annually, it will have grown to about $293,000 at that point. Karen will receive more than $17,000 her first year of retirement—and more than $400,000 over her life expectancy. The UW Foundation will ultimately receive more than $427,000.

Next steps:

Are you wondering what your best next 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, ***Charitable Planning for Today's Donor.***
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.

Innovation spurs investment

Paul Lawrence ('64 MS, '67 PhD CALS) and Marian Buccafurni appreciate the entrepreneurial spirit fostered within University of Wisconsin-Madison faculty.

Lawrence, who earned his postgraduate biochemistry degrees in the College of Agricultural and Life Sciences, said he was surprised after leaving the UW-Madison to find that other institutions were not as savvy when it came to putting their research to work.

"I had the chance to go to any one of 12 universities to get a job," he said. "When I started talking about it I realized Wisconsin had a lot of patents, and those patents were very remunerative for the University. When I would go to these very good schools, the top schools anywhere, as soon as you said something about patents, they would say, 'What's a patent?' These guys at the UW really knew a lot about it."

That's one reason Lawrence and Buccafurni, who split time between homes in the Florida Keys and Monterey, California, consulted with the UW Foundation in establishing one of the charitable remainder trusts that are part of their estate plan. Eventually, that charitable remainder trust will fund scholarships at the UW-Madison. "Our desire is to find the best of the best science people and have scholarships to help them," Buccafurni said.

The two were working for pharmaceutical firm SmithKline when they met; scientist Lawrence was in California, and lawyer Buccafurni was in the legal department in Philadelphia. "We eventually got together and got married," she said.

They left SmithKline to start their own biotech company, Litmus Concepts Inc., as a private concern in Silicon Valley and operated it for about 15 years. "We sold it to a public company. At the time, the sale was done as a stock swap: our private stock for the company's public stock," she said.

"We were so pleased with the structure of the charitable trust—how it operates, how tax-advantaged it can be—that when it came time to do our estate planning, we decided to set up additional charitable remainder trusts."

—Marian Buccafurni

"We were talking to different financial advisers at the time," Buccafurni said. "One of them suggested a charitable remainder trust." They established one and were happy with the result. "We were so pleased with the structure of the charitable trust—how it operates, how tax-advantaged it can be—that when it came time to do our estate planning, we decided to set up additional charitable remainder trusts," she said. "We like the way they operate. We like the idea of being able to provide for our heirs and provide for different institutions."

One of those institutions they will support is the UW-Madison, where Lawrence studied after earning his undergraduate degree at King's College in Wilkes-Barre, Pennsylvania. A professor at King's College knew Henry Lardy, a legendary UW-Madison faculty researcher, and encouraged Lawrence to visit campus. "I drove up to Wisconsin, was impressed and said, 'Let's start!' "

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Innovation spurs investment

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Lawrence received National Science Foundation funding that took him through his years at the UW-Madison, doing "lots of work with sulfur and other things," he said. "In Wisconsin I was also investigating penicillin—Why does penicillin work and how does it work?—with Professor Jack Strominger, who left at the same time I did and went to Harvard (University)."

Upon leaving Wisconsin, Lawrence set out for Utah, where he worked in the medical field, taught and did "all kinds of microbial studies." He moved to California to pursue commercial endeavors and eventually began his SmithKline tenure.

"Paul had such a good experience with the University of Wisconsin, liked the education he got there and the people who were there—some of whom are still there—that we decided to name the UW Foundation as one of the beneficiaries of the charitable remainder trust," Buccafurni said.

"When Paul had suggested we name the UW Foundation as part of our estate plan, I started looking into it, reading the Foundation's *Dividends* newsletters and other materials," she said. They talked with UW Foundation staff and liked the campus climate, especially the potential for innovations to make their way to market through the Wisconsin Alumni Research Foundation and new initiatives such as the Wisconsin Institutes for Discovery.

"We could tell they used their money wisely; they invested it wisely. The University seemed to be almost operating like a think tank in fostering their personnel, their scientists, to think outside the box, to do research," she said. "The good thing is the scientists get some benefits and the University gets some benefits from the new developments that arise.

"We think more universities should operate that way," she said. "I think it attracts not just good scientists, but scientists with an entrepreneurial bent, which is good."

This aerial view shows the Wisconsin School of Business's Grainger Hall in the foreground.

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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/update. 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!

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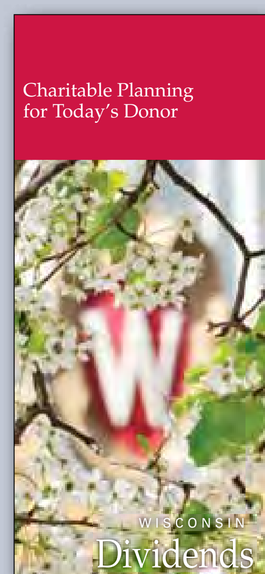

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