



UNIVERSITY OF WISCONSIN
FOUNDATION

CHARITABLE
GIFT
PLANNING
IDEAS

SPRING 2013

W I S C O N S I N

Dividends



How the fiscal cliff legislation
affects your charitable gift

Both the legislation just enacted to avoid the fiscal cliff (officially the American Taxpayer Relief Act of 2012) and the previously enacted Affordable Care Act have implications for charitable giving. Here is a summary of how charitable gifts by people in different financial circumstances are affected.

Individuals with income of \$200,000 or less and couples filing jointly with income of \$250,000 or less.

The tax rates on both compensation (earned) and investment income are unchanged for this group, so the tax savings from charitable gifts remain the same.

Individuals with income between \$200,000 and \$400,000 and couples filing jointly with income between \$250,000 and \$450,000.

The tax rates on compensation income were not changed by the recent fiscal cliff legislation. However, the pre-existing Affordable Care Act imposes a 3.8% surtax on the portion of investment income (capital gain, dividend, interest, and rental) that exceeds \$200,000

for single persons and \$250,000 for couples filing jointly.

This increases the tax benefits of contributing appreciated property. Previously, when this group of taxpayers contributed appreciated securities in lieu of selling them they avoided a 15% tax on the gain; now they will avoid paying an 18.8% tax on that portion of the gain that exceeds the \$200,000/\$250,000 threshold.

Individuals with income exceeding \$400,000 and couples filing jointly with income exceeding \$450,000.

The tax rate on compensation income in excess of these threshold amounts increases from 35% to 39.6%, and the tax rate on capital gain and dividend income increases

from 15% to 20%. Additionally, investment income in excess of the \$200,000/\$250,000 threshold is subject to the 3.8% surtax for funding national health programs.

Thus, people in this highest income group are subject to these federal rates:

- Compensation (earned) income 39.6%
- Interest and rental income 43.4%
- Capital-gain income 23.8%
- Dividend income 23.8%

As a result of these higher rates, these individuals will (with one qualification noted immediately below) realize greater tax savings from all types of charitable gifts, whether made with cash or appreciated property. The most significant increase in tax savings will result from gifts of appreciated property.

Limitation on itemized deductions

The new tax law revives the so-called Pease limitation on itemized deductions for high-income taxpayers, but with a much higher income threshold. Itemized deductions now have to be reduced by the lesser of either 80% of itemized deductions or 3% of adjusted gross income in excess





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The gift annuity: The perfect gift for increasing cash flow in uncertain times

There is a television commercial in which a famous economist is asked, "Can you tell us what CD rates will be a year from now?" He answers with a single word, "No."

What we do know is that they are currently very low, and so is the interest paid on money market funds and bonds. Consequently, many people who have shifted to safer investments have seen their income diminish. For those who would like to increase their cash flow and also make a charitable gift, a gift annuity could be the answer.

A gift annuity makes fixed payments for life to one or two persons, unaffected by fluctuating interest rates and volatile stock markets. The size of the payments depends on the age(s) of the person(s) receiving them, but it is common for the payments to be two or three times larger than what is now being received from fixed-income investments.

Charitable pointer: If a gift annuity is funded with cash, a substantial portion (50% to 70%) of the payments will likely be tax-free for the life expectancy of the beneficiary(ies). Besides the obvious advantage of receiving money and not being taxed on it, there are two other benefits. If you are receiving Social Security payments and your income is too low for you to be taxed on those payments, the tax-free portion of your annuity payments

of \$250,000 for single filers and \$300,000 for those filing jointly and for surviving spouses.

Because of deductions for mortgage interest, state income tax, and property tax, most taxpayers will see very little if any effect on their charitable deductions.

Charitable bequests

The exemption from federal estate tax is \$5,250,000, indexed for inflation. The excess over that amount is taxed at a rate of 40%. (In 2012, the tax rate for estates in excess of the exempted amount was 35%.)

The increased tax rate means that estate-tax savings will be larger for high-net-worth individuals who leave charitable bequests.

Additional surtax on compensation income

Individuals with compensation income of more than \$200,000 and couples filing jointly with income

of more than \$250,000 will pay a 0.9% surtax. This is in addition to the existing 1.45% Medicare/Medicaid tax that employees pay on earned income.

While this provision affects the spendable income of these people, it has no direct effect on charitable gifts.

The increased tax rate means that estate-tax savings will be larger for high-net-worth individuals who leave charitable bequests.

IRA rollover renewed

The charitable IRA rollover has been extended through December 31, 2013. This year, an individual who is at least 70½ can transfer up to \$100,000 from his or her IRA to one or more charities and the amount transferred will count towards the required minimum distribution and will not be included in taxable income. The previous restrictions regarding types of eligible charitable organizations still apply.

will not be taken into consideration in determining the taxation of Social Security payments. If your adjusted gross income is considerably higher and approaching the level where the 3.8% Medicare surcharge would apply to your investment earnings, having tax-free payments may keep you below that level.

In summary, if you can afford to part with some capital, a gift annuity can give you certainty in uncertain times.

A gift annuity can give you certainty in uncertain times.

Note

The new legislation designed to avoid the fiscal cliff contains many provisions not discussed here. Our newsletter deals only with certain provisions that have the most implications for charitable giving. In the event that tax-reform legislation is enacted later in the year, there could be further consequences for charitable giving.

On our cover: Spring flowers decorate Bascom Hall at the University of Wisconsin-Madison. Photo by Jeff Miller, UW-Madison, University Communications.



The IRA charitable rollover is back, again! In 2013, direct gifts to the University of Wisconsin-Madison from your IRA can:

- 1 Be an easy and convenient way to make a gift from one of your major assets.
- 2 Be excluded from your gross income: **a tax-free rollover.**
- 3 Count toward your required minimum distribution.

For your gift to qualify for benefits under the extension:

- You must be 70½ or older at the time of your gift.
- The transfer must go directly from your IRA to the University of Wisconsin-Madison.
- Your total IRA gift(s) cannot exceed \$100,000.
- Your gift must be outright.

This extension won't last forever! Contact us today!

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, *Guide to Planning After the Fiscal Cliff Legislation*.
- 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 are happy to answer any questions you might have or send you more information.



From canvas to CAD: Memorial gift encourages students to solve problems creatively across disciplines

Leonardo da Vinci had his flying machine. George Dergalis had his spaceship sculpture—a sphere 40 feet tall and 30 feet around, adorned with a domed glass skylight and filled with murals dedicated to the potential impact that space travel and biotechnology could have on human civilization.

By his side, helping George build this backyard monument to science and technology, stood Margaret Dergalis, his wife of 33 years. “I may not be a great cook,” says Margaret. “But I’m great at mixing cement.”

Margaret and George spent their lives together, supporting each other’s dreams. George died in February 2012, and Margaret is honoring his memory through an endowed gift that will foster creative student work in the departments of Engineering Physics and Biomedical Engineering.

A 1971 UW-Madison alumna and first-generation college student, Margaret says that had it not been for help finding financial aid and student work to fund her college education, she would not have graduated with her degree in French. “My parents had to drop out of high school during the Depression, so the fact that I could get a college education was a big deal,” she says.

Despite her educational background, she felt it was important to honor George’s passion for medical research and space travel, interests he took up after an amazing journey from his native country of Greece to his home with Margaret in Wayland, Massachusetts.



George Dergalis designed a “spaceship sculpture,” an artist’s interpretation of what a habitat on a faraway planet could look like.

Born in 1928 to Russian expatriates, George escaped a Nazi prison camp as a teenager and went on to learn to paint in Rome, studying under surrealist painter Giorgio de Chirico and still-life artist Giorgio Morandi. He ultimately earned a master’s degree from the Academy of Fine Arts in Rome, and resolved to emigrate to the United States.

George Dergalis escaped a Nazi prison camp as a teenager and went on to learn to paint in Rome.

He arrived in New York City with \$7 in his pocket, working as a window washer and janitor before being drafted into the U.S. Air Force for combat during the Korean War in 1952. His high aptitude scores outweighed his inability to speak fluent English, so George became a helicopter pilot tasked with

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From canvas to CAD

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medical evacuations from war zones, a mission that gave him a lifelong appreciation for both the aeronautical engineering and the medical technology that enabled him to save soldiers.

“By being a pilot, he knew about mechanics coupled with design and a creative vision. He always talked about cars that would eventually fly, and that sort of thing,” recalls Margaret. “And on the medical side, he had a lot of ideas about how understanding the nervous system would be the key to helping people.”

“I think when you’re a teacher, you’re a giver. Part of your joy is to make other people grow.”
—Margaret Dergalis

After the war, the GI Bill enabled George to study at the Museum School of Fine Arts in Boston. He eventually settled there to live out his two-part dream: to paint and to teach. “He loved teaching. I think when you’re a teacher, you’re a giver,” says Margaret. “Part of your joy is to make other people grow.”

Not only did George help young artists to grow through his position at the Museum School of Fine Arts in Boston and DeCordova in Lincoln, he met his wife, who came to one of his art courses as a student. “What can I say? I fell in love with my teacher,” says Margaret.

They married in 1979.

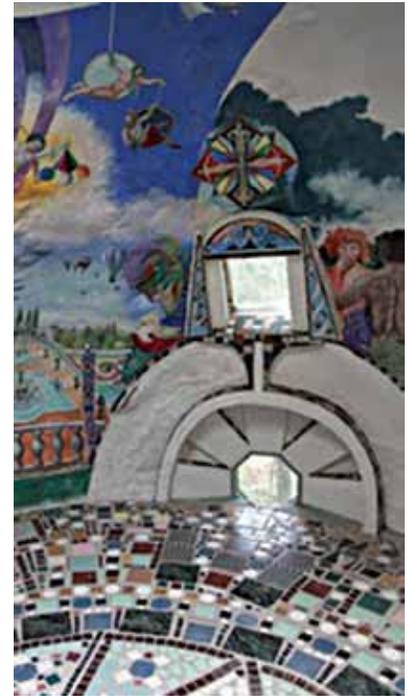
George taught until his health began to decline, but he celebrated

the impact that both art and engineering had made throughout his 83 years of life. The bold, sharp lines of one of his and Margaret’s crowning achievements—the Wayland Veterans Memorial—reflect both creative vision and meticulous design. Margaret says that to her and her husband, creativity is a value that crosses between disciplines, a value shared between engineers and artists. “I think you need to learn to think outside the box,” says Margaret. “That perhaps is the key to really coming up with dynamic innovations.”

Margaret hopes that by supporting students in design courses, encouraging them to apply their creativity to the problems we’ll face in the future, she can make a difference while passing along a bit of George’s wisdom: “If you have an idea, believe in it, run with it, pursue it. Whatever your dream is, go for it.”

By Mark Riechers

Photos by Adam Riemer



Murals depicting the intersection of the arts with the history of science and technology related to space travel cover the interior walls of the spaceship sculpture.

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/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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Guide to Planning After the Fiscal Cliff Legislation

To receive more information, simply return the attached card or call:

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