



CHARITABLE
GIFT
PLANNING
IDEAS

SUMMER 2013

W I S C O N S I N

Dividends



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Making your real estate
work for you

“Buy land—they ain’t making any more of that stuff.” —Will Rogers

Perhaps no one has been better than Will Rogers at distilling a complex concept into a simple, meaningful phrase. More than half a century later and with twice the population of his time, Will Rogers’ statement is more apt today than ever. Indeed, the quest to own one’s home is the American Dream pursued by two out of every three families.

Moreover, on an economic level, real estate has proven to be the cornerstone of the fortunes of many of the country’s wealthiest people. Smaller investors have also used the unique benefits of real estate investments to increase their own net worth.

Even though the down payment requirement may be only about 20% of the total value of the property purchased, in many instances it still represents a hefty commitment of cash. In addition:

- The cash is locked up in a single investment not allowing for diversification as with liquid investments of stocks and mutual funds.
- And there remains a heavy carrying cost on the interest paid to finance the balance.

One of the most significant challenges of real estate, however, is that even in a relatively strong market, it can take some time to dispose of it and convert its value to cash. This has major estate-planning implications, especially in regard to the death-tax liability attributable to real estate holdings.

Real estate: an excellent choice to fund your charitable gift

Many real estate investors with significant charitable objectives will find that real estate is the best asset to give, and one of the most important

benefits of using appreciated real estate to fund your charitable gift is the ability to reduce or even eliminate the capital-gain tax that will be due if you sell the property. (See Example 1.)

Example 1

Tom G. wants to make a major gift to support the University of Wisconsin-Madison. Undeveloped ground that he bought several years ago for \$60,000 is now worth \$100,000. If he sells, because of the 15% capital-gain tax he will owe a tax of \$6,000.

Instead, he decides to give the land as his gift. He does not recognize any gain, and he can claim a deduction for the land’s full \$100,000 fair-market value. In his 33% federal income-tax bracket, Tom’s gift saves him \$33,000. The real cost of Tom’s gift is only \$61,000 after capital-gain and income-tax savings.

In addition to the above tax benefits, a gift of real estate also relieves an owner of the many burdens of ownership—insurance costs, rent collection, maintenance, yard work, etc.





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In the long run, a gift of real estate also addresses issues of estate liquidity: You may preserve your cash and those assets readily converted to cash, such as stocks and bonds, to address liquidity needs that may arise during administration of your estate.

Real estate holdings are adaptable to a variety of charitable-planning strategies, some of which, in fact, are available only with real estate.

Give a fractional interest

Real estate ownership is, by its very nature, an abstract concept. You can't pick it up and put it in a container. Ownership is designated through documents recorded in the appropriate governmental office, making it a relatively easy matter to create a fractional interest in real estate. This may suit the charitable-giving objectives of some property owners perfectly.

It is a simple matter to transfer an *undivided fractional interest* in the property equal to the intended value of the gift to the University of Wisconsin Foundation. (See Example 2.)

Example 2

Gloria M. would like to use her investment in an apartment building to fund a gift to the University of Wisconsin-Madison worth \$75,000. After appraisal and careful planning, she decides to transfer an undivided one-fourth interest in the building to the UW Foundation. The appraisal shows that the value of this fractional interest is \$75,000.

Part gift, part sale

You may want to use real estate to make a gift, but you need to recoup some of its value. Real estate provides the flexibility to accomplish this through the use of a strategy known as a *bargain sale*.

A bargain sale is just what it sounds like: You transfer real estate to the University of Wisconsin Foundation in exchange for a payment that is less than the full value of the property. Typically, the gift generates a charitable deduction equal to the difference between the

fair-market value of the property and the amount of the payment received. In addition, you recognize only the capital gain attributable to the "sale" element (amount you receive).

Of course, if you give your entire interest in the property without receiving anything back, you avoid having to recognize any of the capital gain. (See Example 3.)

Example 3

The Taylors own a vacation lake house they rarely use now that their children are grown. They would like to make a substantial gift to support UW-Madison, and they think the lake house would be an ideal asset to fund their gift.

Their home is now worth about \$250,000, and the Taylors would be happy to use it to make their gift if they could recover their original \$100,000 investment. After some discussion, the UW Foundation enters into an agreement with them to purchase their house for \$100,000. They are entitled to a charitable deduction of \$150,000 as a result of this bargain sale.

Also, the Taylors have to recognize and report capital gain of \$60,000 attributable to the sale element of the bargain sale. This is arrived at by multiplying the sale price by the appreciation and dividing the product by the fair-market value of the property:

$$\frac{\$100,000 \times \$150,000}{\$250,000} = \$60,000$$

Of course, the capital gain the Taylors have to report is more than offset by their charitable deduction.

Make a gift of your home —and retain possession

Perhaps you would like the University of Wisconsin Foundation to have your residence when you are gone, but you want to continue to live there for the rest of your life.

If you choose to leave your home to us in your will, you receive no current income-tax benefit for you as a homeowner. However, with a gift of a *remainder interest with a retained life estate*, you can retain the right to both live in your home for life and receive a valuable charitable deduction by transferring it to the UW Foundation, subject to your right to live there for life.

The size of the resulting charitable deduction depends on several factors, including the value of the property and the age(s) of the person(s) retaining the life estate. (See Example 4.)

Receive a stream of income

It's not always the asset itself that is difficult to give up; it's often the cash flow that asset can generate. Careful planning allows you to both maintain cash flow from your property and increase spendable cash—all while making a gift to the University of Wisconsin-Madison, receiving substantial tax deductions, and reducing or eliminating tax on capital gain.

Real estate is an excellent asset to fund a special planning vehicle known as a *charitable remainder trust*,

On our cover: Coneflowers bloom in front of the Wisconsin Institutes for Medical Research at UW-Madison.

Example 4

Alan F., 78, has intended for some time that the University of Wisconsin Foundation will eventually have his home. His will directs that his house be given to the foundation when he dies. Presently, the home is worth \$400,000.

In order to realize tax savings during his lifetime, Alan decides instead to transfer the house now, subject to a life estate during his life. This allows Alan to claim a charitable deduction of more than \$316,900 that, in his 33% federal income-tax bracket, saves him more than \$104,500 in taxes.

which makes payments for life or for a specified number of years (up to 20) to one or more designated beneficiaries. These payments are based on the value of the trust's assets. At the end of the trust term or at the death of the last beneficiary, the remaining assets pass to the UW Foundation. The value of this "charitable remainder" qualifies for a charitable deduction.

- A *charitable remainder unitrust* uses a fixed percentage to determine its annual payout, but that fixed percentage is applied to the value of the trust's assets as it changes from year to year. So, if the value of the assets goes up, the payout will go up.

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, *How to Realize Maximum Benefits from Your Real Estate*.
- 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.

How to Realize
Maximum Benefits
from Your Real Estate



Yak ranch benefits university

Consider a set of circumstances: You're sick of pumping iron at the gym. You'd like to exercise with a purpose. You're ruminating on it all during a fishing trip with your brother in Belize.

"Iwouldn't mind having a farm where you mend fences and bale hay," Dr. Tom Koehler told his brother on that fateful trip. The idea blossomed into the Green Bay Yakkers, a yak ranch on Wisconsin's Door County peninsula.

Koehler lived his dream, building fences and tossing hay bales, while living on a perfect piece of property. His vision changed, however, when he left his executive and board positions with Aurora Health in Green Bay and moved to Walla Walla, Washington, where he's a hospitalist. For personal and financial reasons and with a desire to benefit the University of Wisconsin-Madison, he gave the ranch to the UW Foundation.

"It allowed me to walk away from that ranch with a smile on my face," Koehler said, adding he was happy and proud that the sale of the ranch will help support students. "And it was easy," he said.

Making a gift of property to the university can be as simple as transferring the title to the UW Foundation. A qualified appraisal establishes the fair-market value and allows the owner to claim a charitable deduction for the property's full value. In addition to outright gifts of real estate, property owners have several other options:

- Leave the property to the Foundation through a will or living trust.
- Retain the right to live in and use the property.
- Subdivide the property and make a gift of part of it.
- Establish a charitable remainder unitrust with the property and receive a lifetime income stream.



After donating his yak farm and moving to Walla Walla, Washington, Dr. Tom Koehler still finds time to enjoy nature.

Life with yaks and beyond

Koehler wasn't a stranger to rural life. His family briefly lived on a farm, and he spent more time visiting his grandparents' farm. He knew, however, that he wasn't interested in raising animals as ordinary as cattle. Yaks, he learned, like cold weather and thrive in the harsh landscape of Tibet. They'd be perfect for Door County.

He established his fledgling ranch on rented land near Green Bay until he found a perfect parcel of land near Brussels, about 30 miles up the peninsula. He started from scratch, installing and building fences, a barn and a house. At one time he had 30 yaks, which weigh about 1,700 pounds for males and 650 pounds for females. The average cow, in contrast, weighs about 1,660 pounds.

These shaggy black beasts with black noses were Imperial yaks, as close to wild as Koehler could find. They provide a natural fiber, wool; they're pack animals; and Tibetans make yak dairy products. In Door County, Koehler sold yak burger. A Nepalese restaurant in

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Yak ranch benefits university

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Madison was a regular customer for yak meat.

Koehler's move to Washington made it tough to take care of a yak ranch in Wisconsin, and selling it was difficult. That's where the UW Foundation came in.

An avid Badgers fan, Koehler had earned his master's degree in preventive medicine and medical administration from the UW-Madison in 1996. He knew he wanted to make a significant gift to the university, and the ranch offered benefits on several fronts.

Once he made the decision, the process of turning the property over to the UW Foundation, which is the designated gift-receiving organization for the university, was easy, he said. He hopes the proceeds of the sale will benefit students interested in agriculture.

As for Koehler, he rides his bike and hikes during the summer but is back to the YMCA during winter months. "I'm now a city slicker," he said.



You can give a lot of different things to your alma mater—even a Yak ranch!



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

- 1 Provide an easy and convenient way to make a gift from one of your major assets.
- 2 Reduce your gross income: a **tax-free rollover**, and 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 Foundation.
- Your total IRA gift(s) cannot exceed \$100,000.
- Your gift must be outright.

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

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!



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

How to Realize Maximum Benefits from Your Real Estate

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

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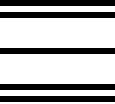
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Dividends



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- Please send me a copy of *How to Realize Maximum Benefits from Your Real Estate*.
- I have included the university in my estate plan.
- I am considering including the university in my estate plan.

Please contact me to discuss options.

- I would like more information on the following types of gifts:

- Real estate
- Securities
- Gift annuities
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- Gifts from an estate
- Pooled income funds
- Charitable trusts

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To learn how you can join the growing community of alumni and friends who have created a legacy for the future of our great University, call 608-262-6241 or visit:

www.supportuw.org/legacy

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