Wisconsin DIVIDENDS

UNIVERSITY OF WISCONSIN FOUNDATION SUMMER, 2003

Creating your charitable action plan for 2003

When you prepared your Form 1040 this year, what did you feel when you signed the bottom of the page? Satisfaction and relief that you made the most of your tax-planning opportunities, or regret that you let them pass you by?

The terrazzo floor in the new Engineering Centers Building reflects images found in engineering research, such as circuits, CAT scans and crystals.

Many taxpayers forgo yearly tax planning or delay it until late in the year–thereby paying additional hundreds or even thousands of their dollars when they file their income-tax returns.

Other taxpayers realize the earlier they act, the more they can substantially reduce their future income-tax bills. This issue of *Wisconsin Dividends* explains how to make the most of the one element over which you have the most control: the charitable tax deduction.

As you consider your 2003 tax planning, we hope you will consider the many ways creative charitable planning can help you reach your personal objectives, significantly reduce your income taxes and provide meaningful support to the University of Wisconsin Foundation.

Following is a brief outline of some of the best gift opportunities for 2003. When you review your overall estate plans, remember that these plans, too, can include a charitable dimension. Please call our office or see your tax advisor to discuss how this general information may be applicable to your particular circumstances.

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A tradition of giving

Many tax-conscious individuals make the beginning of the year their time for financial planning. This is when your options and opportunities are the greatest. While there is an element of uncertainty to most strategies, charitable gifts almost always lower your income-tax bill if you itemize, regardless of your income level.

Sometimes, the most direct approach proves to be the most effective. For example, there is no easier way to garner a charitable deduction for 2003, and support UW-Madison at the same time, than by simply writing a check! If you itemize, outright gifts are fully deductible for federal income-tax purposes (up to 50 percent of your adjusted gross income). If your total gifts should exceed this limitation, the excess may be carried forward for tax purposes up to five additional years.

When you file your return…

A gift of:	Will actually cost you:	Will save you:
$ 1,000	$ 720	$ 280
$ 1,500	$1,080	$ 420
$ 2,000	$1,440	$ 560
$ 2,500	$1,800	$ 700
$ 5,000	$3,600	$1,400
$10,000	$7,200	$2,800

Figures assume 28 percent marginal tax bracket.

Example: *If you are in the 28 percent income-tax bracket in 2003 and you itemize your deductions, a $1,000 gift to the UW Foundation by December 31 will save you $280 in 2003 taxes.*

You may find even better benefits, though, when you plan your charitable gifts in light of other tax and investment considerations, or in light of other planning objectives.

Investment planning

There are some key advantages to investments that produce capital gain. Long-term capital gain is taxed much more favorably than ordinary income. Income-tax rates on ordinary income reach a high of 35 percent, while the top capital-gain tax rate generally is only 15 percent. But still, who wants to lose 15 percent of their hard-earned profit to taxes?

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When you think of appreciated property, securities and real estate probably come to mind. Gifts of such assets clearly demonstrate the double benefit of contributing long-term appreciated property.

Charitable deduction. A donor who contributes long-term capital-gain securities or real estate (i.e., property held for more than one year) earns a charitable deduction equal to the property's full fair-market value (FMV).

You can deduct, in the year of the gift, the full fair-market value of long-term appreciated property subject to a limit of 30 percent of your adjusted gross income. Any excess can be carried forward for up to five additional years.

Example: *Katherine owns securities with an FMV of $20,000; she purchased the stock several years ago for $5,000. If she contributes the stock to the UW Foundation, Katherine will receive a charitable income-tax deduction of $20,000, saving her $6,600 in her 33 percent tax bracket* ($20,000 x 33 percent). *The income-tax savings alone would reduce the cost of her gift to $13,400* ($20,000 - $6,600). In addition, Katherine avoids paying $2,250 in capital-gain tax on the securities' appreciation ($15,000 x 15 percent).

You might want to consider a gift of a remainder interest in your home, vacation home or farm.

Gifts of real estate

A charitable gift of real estate can be especially tax advantageous. A personal residence, vacation home, farm and commercial and rental property can all be used to make gifts. Like gifts of long-term appreciated securities, gifts of real estate can be very attractive

Gifts of real estate can be very attractive because of the double tax benefit–an immediate charitable deduction and the avoidance of capital-gain tax.

because of the double tax benefit, an immediate charitable deduction and the avoidance of capital-gain tax. ***Note:*** If you sell your primary residence, in most cases there is no capital-gain tax on the first $500,000 of gain for married couples ($250,000 for singles).

However, family considerations do not always permit the making of an outright gift. Instead, you might want to consider a gift of a remainder interest in your home, vacation home or farm. Even though you retain the right to continue to possess and enjoy the property for as long as you (and your spouse) live, you'll qualify for a current income-tax deduction for the present value of our remainder interest.

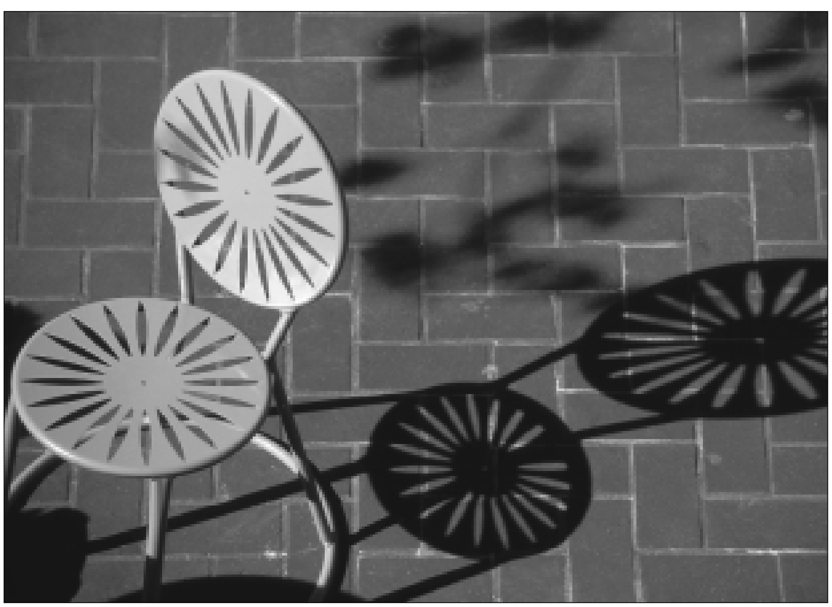

Photo by Jeff Miller

Memorial Union Terrace chair and its shadow.

Retirement planning

Deductible contributions or tax-free distributions? You may want to consider the Roth individual retirement account (Roth IRA). This relatively new option is basically the mirror image of a traditional IRA. Contributions to a Roth IRA are not deductible, but distributions are tax-free if certain conditions are met. You will want to consider carefully whether the benefits are right for your situation.

Tax Relief 2001 increased the maximum allowable contributions to IRAs and other retirement plans. Persons aged 50 and older can make additional annual IRA catch-up contributions of $500, increasing to $1,000 in 2006.

If you are eligible to make either a regular or Roth IRA contribution, you should weigh the benefits of current deductibility against ultimate tax-free distribution. Which one is best for you depends on several factors, such as how many years you have until you begin to take distributions and the assumptions you make about future growth on contributions.

Even with the new retirement-planning options now available, you may still feel the need for additional retirement security. If you also have major charitable objectives, a charitable life-income gift may be just the plan for you.

Deferred-payment gift annuity. Payments from a deferred gift annuity start in the future. Most people choose the age of 65, but you can select an earlier or later date, depending on your anticipated flow of income from other sources.

The amount of the annuity payment you will receive depends on the amount you contribute, the length of the deferral period and your age at the time payments begin. You will know in advance exactly how much you will receive, and your payments will be backed and guaranteed by the UW Foundation.

A charitable life-income plan may be right for you.

The deferred-payment gift annuity is sometimes called the "charitable IRA" because earnings on contributions are sheltered from taxation during the accumulation period and taxed only when payments begin. There are, however, these differences:

- Unlike allowable contributions to a Keogh, IRA or other qualified plan, which are 100 percent deductible from your income, contributions for a deferred gift annuity are generally 30 to 35 percent deductible, depending on your age when you make the gift and when payments begin. On the other hand, a portion of your payments will likely be tax-free.

Photo by Brent Nicastro

UW Marching Band during a football game at Camp Randall Stadium.

- There is no limit on the amount you can contribute for a deferred gift annuity.
- Whereas you must contribute cash to your qualified retirement plan, you may contribute either cash or securities for a deferred gift annuity. If you choose to fund a deferred gift annuity with appreciated securities, you can greatly reduce the amount of gain subject to tax and spread that reduced tax over the balance of your life expectancy.

Example: James, 45, is a successful business owner who is contributing the maximum possible to his Roth IRA, and he would like to accumulate more for retirement. He decides to contribute $10,000 per year to the UW Foundation for the next twenty years for deferred-payment gift annuities. During the twenty-year period, he will contribute a total of $200,000. Beginning at the age of 65, he will receive annual payments of $20,580 for life. More than 34 percent ($68,184) of his total contributions will have been deductible.

Flexible annuity planning option. As James approaches the age of 65, his "target date," he decides that he is not quite ready to retire. Because he won't be needing the income from the annuity, he elects to postpone receiving payment. When he is finally ready to retire, he gives us notice of at least 90 days. Although postponement will not change the charitable deduction, it will increase the amount of the eventual payments.

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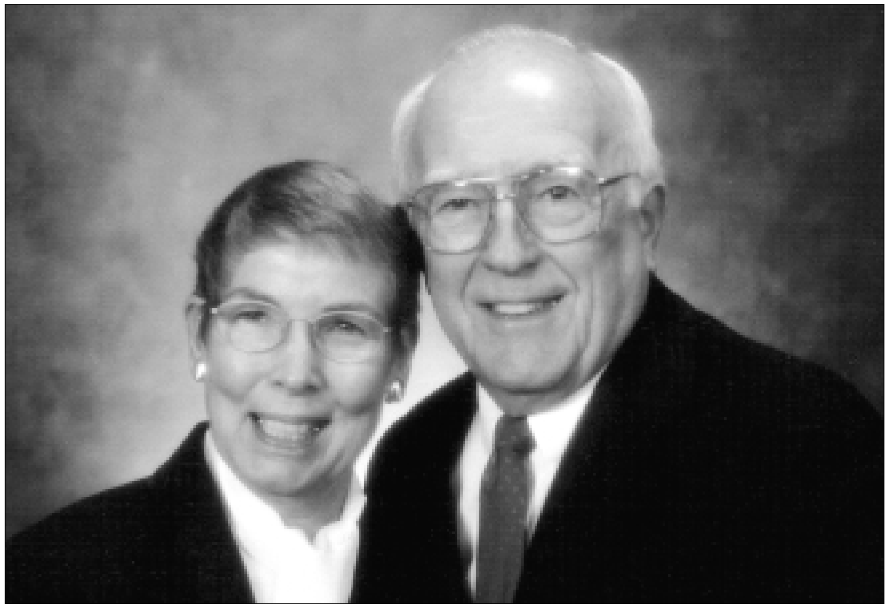
For the *love* of the University

Sometimes the death of a loved one inspires one to think about his or her own mortality. This was the case for Tom and Mary Stephens of Madison, Wisconsin. Tom's mother Helen Reed Stephens ('17 BS Human Ecology), after leading a full life, had passed away in December of 2001 at the age of 107. Tom, who had just finished handling her estate, and Mary decided it was time to simplify their life.



Tom and Mary Stephens

Raised on Sherman Avenue in Madison, Tom spent many of his childhood days playing on the University of Wisconsin-Madison campus. It only seemed natural that he would attend UW-Madison. "I recall ice-skating across Lake Mendota carrying my shoes," he said. "When I got over to the Delta Upsilon house, I would change my shoes and go to class." Tom graduated in 1947 with a bachelor's degree in economics from the College of Letters and Science.

While at the UW, Tom met Mary Williams, a member of Kappa Kappa Gamma sorority. Mary received her bachelor's degree in geography, also from the College of Letters and Science.

"I cherished the friendships I made at the University," said Mary. "Louise H'Doubler Nagle and I hosted a 'Fabulous Forties' reunion for our sorority sisters who were at the University during the '40s."

A charitable remainder unitrust helped the Stephenses obtain a more steady income for future years.

Tom served as a U.S. Army captain in transportation during World War II, after which, in 1949, he and Mary were married. Tom spent his entire career in the transportation / distribution industry and the family lived throughout the Midwest.

"Finally, we moved back home to Madison," said Tom, who worked as the corporate distribution manager at Oscar Mayer Foods Corporation until his retirement in May 1987.

With a home, a condominium, rental property and an S corporation the couple was spending too much of their time on paperwork. They wanted to downsize but still live comfortably. With their deferred income ending and income from their investments in constant fluctuation, they sought a way to obtain a more steady income for the future. The solution was to donate their rental property, a two-unit apartment in Madison, to the University of Wisconsin

Foundation and establish a charitable remainder unitrust.

A charitable remainder trust is an irrevocable trust. Under its terms, assets are transferred to the UW Foundation, with income paid to the Stephenses for a predetermined number of years or for the lifetime of one or more individuals. When the designated time expires, the trust principal becomes the property of the UW Foundation and is used for the purposes specified. In this case, Tom and Mary established scholarship funds for both the men's and women's tennis teams. The UW-Madison Comprehensive Cancer Center also will receive a portion of their gift for breast cancer research.

The Stephenses share their passion for tennis. Tom was on the UW men's tennis team, and Mary has played tennis since she was 11 years old, although not competitively.

"We are both active tennis players and have followed the University's tennis teams for years," said Tom. "It only seemed natural that we would designate a portion of our gift for tennis."

"Hopefully, our gift for cancer research will help facilitate a cure for cancer."

Their reason for giving to the University's Comprehensive Cancer Center is a little more reflective of the value of life. Mary, already a 13-year breast cancer survivor, explains that, "last fall I received excellent treatment at University Hospital and Clinics. The doctors wasted no time in my diagnosis and treatment. Hopefully, our gift for cancer research will help facilitate a cure for cancer."

The couple is involved in local charities. Mary worked as a volunteer at Attic Angels retirement home, where Tom's mother lived for 17 years. "Not only do you learn a lot about geriatric care, you learn from the residents as well," she said. Mary also was president of the Madison local chapter of the Wisconsin Alumni Association.

Tom was active in public affairs as an alderman and was on the police and fire commission when Sterling Hall was bombed. Tom also is a founding board member of the Second Harvest Food Bank and a life board member of the Madison Salvation Army.

In addition to tennis, the couple enjoys spending time with their grandchildren and two grown sons, Robert (BBA '85 and MBA '87) and Reed, who both live in Houston, Texas.

Now is the time to start

Chances are there are several opportunities for you to realize tax savings before 2003 comes to a close. Why not start now while the results from last year are fresh in your mind? If you would like to pull information together and explore a range of charitable planning ideas, please send for complimentary copies of our booklets: ***A Personal and Charitable Financial Record*** and ***Ways to Give.*** Simply return the enclosed reply card, or call **Russ Howes,** vice president, planned giving and legal affairs, 608-263-0371; **Bonnie Bruce,** senior director, planned giving, 608-263-2135; **Scott McKinney,** director, planned giving and real estate, 608-262-6241 or **Mikel Domnitz,** planned giving officer, 608-265-8068.

UNIVERSITY OF WISCONSIN FOUNDATION
Philanthropy makes the difference

1848 University Avenue
P.O. Box 8860
Madison, Wisconsin 53708-8860
608-263-4545
Fax: 608-263-0781
uwf@uwfoundation.wisc.edu
www.uwfoundation.wisc.edu