Volume 3, Number 1 Spring 2001

WPI Ideas

Inside ...

PLANNED GIVING—AN AMERICAN TRADITION

TYPES OF GIFTS

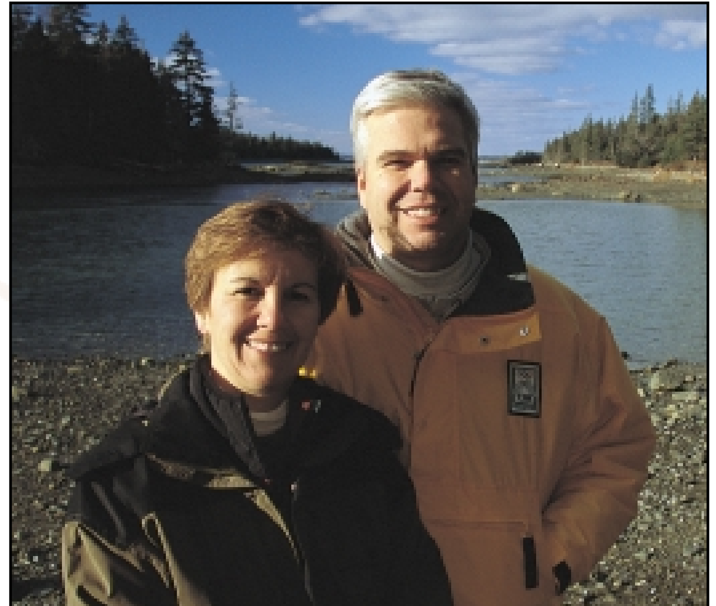
BEQUESTS

FLEXIBILITY AND TAX SAVINGS THROUGH TRUSTS

Send for a complimentary booklet: *Planned Giving: Options and Opportunities.*

For more information:
Office of
Planned Giving
WPI
100 Institute Rd.
Worcester, MA 01609
508-831-6001
888-WPI-GIFT
Fax: 508-831-6004
planned-giving@wpi.edu

GIVING BACK TO THE COMMUNITY IS AN ACT OF STEWARDSHIP FOR THE SZKUTAKS



Stewardship, in one definition, is the responsibility of an individual for sharing systematically and proportionately their time, talent, and material possessions for the benefit of all mankind. The *consistent* support of the community one lives in, worthy charitable causes, and one's alma mater, are all acts of stewardship. This is the driving sentiment behind the philanthropy of Joan and David Szkutak, alumni of the Class of 1979. Active as volunteers at both WPI and the United Way of Cincinnati, Joan and Dave contribute significantly to *all* of their communities.

"We are blessed with now being able to make significant gifts to our community," say Joan and Dave. They feel that giving back in this way is an obligation. Currently, they are building a house in Maine and are looking at ways to support their new community there, as well as their home in Cincinnati. They credit WPI as a critical enabler in their careers. "The unique education we received at WPI—and the projects especially—really made a difference." Neither may have been able to attend WPI without the support they received from the University. "We want our gifts to WPI to provide the same opportunity for other students. Our commitment to the Class of 1979 Reunion Gift through a President's Advisory Council Scholarship was the best way to provide these opportunities."

By making a gift of appreciated securities, they were able to leverage the tax advantages and make a bigger gift. "It's a win-win for both WPI and us. You have to mentally realize it's a much better way to give—you can be more ambitious and generous." They funded a gift with stock they'd been accumulating since moving to Cincinnati—the stock had a cost basis of approximately $1,000. Their gift and charitable tax deduction were based on its current value of $5,000. With a low cost basis comes a high capital-gains tax—so it was the best asset to contribute. "Plus we can repurchase the same stock with cash and establish a new cost basis. Our personal assets will continue to accumulate and grow. Whatever we do with our personal wealth, WPI will be factored in."

Planned Giving—An American Tradition

To preserve the memory of a loved one, to fulfill a moral obligation, to express gratitude for a service well-performed, to demonstrate deep-felt humanitarian concerns for children—these are some of the reasons thousands of people each year contribute their money, time, and talent to America's charitable organizations. Indeed, private philanthropy is the foundation of every educational, religious, health-care, and charitable organization.

Considering today's economy and the increased complexity of our nation's tax structure, it is more important than ever to plan one's charitable gifts. The need for planning is twofold: one, to ensure that the gift will be put to the best possible use and, two, to ensure that the gift fits the donor's financial needs and objectives.

Planned giving has become very popular today. Indeed, there are many plans that may be of mutual benefit to both the donor and the charitable organization. We are pleased to outline several planned-gift opportunities you may wish to consider as you plan your own charitable gifts.

TYPES OF GIFTS

Congress has provided numerous tax incentives to encourage charitable gifts. In effect, the U.S. Government will share in the cost of the gift.

For example, the out-of-pocket cost of a cash gift is less than the dollar amount of the gift. This is due to the income-tax charitable deduction. Thus, a person in the 31% tax bracket can make a contribution of $100 at an actual cost of only $69.

Tax benefits depend on the kind of property given and the form of the gift. From a tax standpoint, certain kinds of gifts may be more advantageous than others. Consequently, it pays to plan your gift to secure maximum tax benefits.

Appreciated Property—An alternative to a gift of cash that deserves careful consideration is a gift of long-term appreciated property (i.e., held for more than one year). Substantially greater tax benefits result because the tax on the unrealized appreciation is avoided.

Example: Several years ago, John M. purchased stock for $5,000. Today the stock is worth $10,000, and he decides to make a charitable gift to WPI. As a result of his contribution, John is entitled to a charitable deduction for the full fair-market value of the stock at the time of the gift, or $10,000. In his 31% tax bracket, the deduction translates into an actual income-tax savings of $3,100.

In addition, John will not have to pay any capital-gains tax— a savings of $1,000 at his 20% capital-gains rate.

Gifts of Real Estate—For many people, gifts of long-term capital-gain real estate to charitable organizations such as WPI are advantageous for several reasons.

If the gift is made during life, the donor will realize an immediate income-tax charitable deduction for the full fair-market value of the property. In addition, the donor will escape any capital-gains tax on the appreciation in value.

If the gift is made by will, the donor's estate will be allowed an estate-tax charitable deduction, and there will be no capital-gains tax on the appreciation.

Family considerations sometimes do not permit one to make an outright gift. This is often the case when the gift is a personal residence or farm. Instead, the donor may want to consider a gift of a remainder interest in their property. Even though they retain the right to possess and enjoy the property for as

long as they (and their spouse) live, they'll obtain a current income-tax deduction for the present value of WPI's remainder interest.

Tangible Personal Property—As with gifts of long-term capital-gain securities or real estate, a donor is entitled to a charitable deduction for gifts of long-term capital-gain tangible personal property, such as works of art, rare books, stamp or coin collections, etc. The extent of the allowable deduction for a gift of such property is dependent upon the so-called standard of "related use.'' Here's how the standard is applied:

If the use of the contributed property is related to the exempt purposes of the charity (e.g., a painting to a museum or rare books to a library), then the donor will be entitled to a charitable deduction for the full fair-market value of the property—subject to the 30% ceiling and carryover.

If the use of the contributed property is unrelated to the exempt purposes of the charity (e.g., a stamp collection to a hospital to sell and use the proceeds), then the donor will be entitled to a charitable deduction for his or her basis in the property.

Note: When the donor is the creator of the contributed tangible asset, the charitable deduction is limited to his or her actual cost in producing the asset.

Gifts of Life Insurance—There are literally trillions of dollars of life insurance in force in this country. And for good reason—life insurance is a remarkably versatile asset.

It provides protection against the economic loss suffered in the event of death or disability. It can be used as a supplemental source of retirement income. It is an excellent source of liquid funds for the payment of state and federal death costs and other expenses. In addition, many people find that a life insurance policy makes an excellent gift that can be given at very low cost.

A gift of life insurance can be especially meaningful for a number of reasons:

- Life insurance allows you to make a substantial future gift on an installment basis by making a series of modest payments during your lifetime.
- A gift of life insurance is certain, and the proceeds are paid promptly, without going through the time-consuming process of probate.
- Depending on the arrangement of your gift, life insurance can create a number of favorable tax consequences.

BEQUESTS

While creating an estate plan, many have found the bequest to be an excellent way to make a meaningful charitable gift. Careful planning permits the donor to realize the personal satisfaction that comes from knowing that the gift investment will permit WPI to maintain the standard of excellence without in any way jeopardizing the financial security of the donor's family.

Different kinds of bequests may be used by individuals to memorialize their philanthropic interests. The choice depends on each person's unique circumstances and personal and financial objectives.

A specific bequest identifies particular assets, while a general bequest provides a sum certain as the subject of the gift. A percentage bequest expresses the gift as a percentage of the total estate, regardless of size. This bequest provides more flexibility in a volatile market.

It is also possible to make a gift of what is left after taxes, debts, expenses, and other bequests have been satisfied (a residual bequest), or the gift may be conditioned on the occurrence of some event, such as an intended

Trying to find that old article on gift annuities but can't find your copies of *WPI Ideas* or *Financial Strategies*?

We have the solution!

At your request we will send you a complimentary binder filled with past issues of both of these informative newsletters.

Supplies are limited. Call 888-974-4438 or e-mail planned-giving@wpi.edu to request your binder.

beneficiary predeceasing you (a contingent bequest).

In addition to the personal satisfaction of making a philanthropic bequest, there are definite federal estate-tax benefits. An estate-tax charitable deduction is allowed for the full value of the gift.

FLEXIBILITY AND TAX SAVINGS THROUGH TRUSTS

Charitable remainder trusts offer independent features that can be used effectively to achieve financial- and estate-planning objectives.

As with an outright gift, a charitable remainder trust funded with long-term appreciated securities or real estate provides the grantor with the double benefit of a current charitable deduction and the avoidance of capital-gains tax.

To qualify for favorable tax treatment, a charitable remainder trust must be in the form of either an annuity trust or a unitrust.

Annuity Trust—The annuity trust provides for payment of a fixed dollar amount annually—or at more frequent intervals—to the designated beneficiary or beneficiaries. The amount must equal at least 5% of the initial fair-market value of the trust.

Unitrust—The unitrust provides for payment of a variable amount—equal to at least 5% of the value of the trust as it is revalued each year—at least annually to the designated beneficiary or beneficiaries.

Both the annuity trust and the unitrust provide that at the death of the last beneficiary the trust principal is distributed to charity. The key difference is that payments from an annuity trust are fixed and do not change even though the value of the trust may change. Payments from a unitrust, however, fluctuate according to changes in the value of the unitrust.

Trusts Provide Lifetime or Estate Benefits

If you set up a charitable remainder trust with WPI during your lifetime, you will receive an immediate income-tax deduction, have professional investment counsel manage your trusts, receive a stream of payments for life, secure an estate-tax deduction, and provide a meaningful charitable gift.

If, as part of your estate plan, you establish either an annuity trust or a unitrust through your will, your estate will be entitled to an estate-tax charitable deduction based on the present value of WPI's remainder interest in the trust. The deduction depends on the age(s) of the beneficiary or beneficiaries, the amount payable from the trust, and the type of trust that is established.

We Are Here to Help

For more information, please return the enclosed card for a copy of our latest booklet, ***Planned Giving: Options and Opportunities***.

If you would like specific information about the financial benefits of charitable trusts, please complete the appropriate section of the reply card or contact the Office of Planned Giving at 1-888-974-4438 or planned-giving@wpi.edu.

WPI was founded in 1865. Responsibility for governing the University is vested in a Board of Trustees comprised of 37 members, one of whom serves in an ex-officio capacity as a paid officer of the University. Others are volunteer and are appointed either as At-Large Trustees or as Alumni Trustees.

Common investment funds managed by WPI are exempt from registration requirements of the federal securities laws, pursuant to the exemption for collective investment funds and similar funds maintained by charitable organizations under the Philanthropy Protection Act of 1995 (P.L. 104-62). Information in this newsletter is provided to you in accordance with the requirements of that Act.