

# Planned Philanthropy

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Send for our booklet,  
**7 Charitable Tax-Wise  
Moves You Can  
Make Now.**



## YEAR END REALITY: Is Charitable Planning in Your Fall Lineup?

In recent years, programming executives have eschewed a steady diet of sitcoms and dramas for a growing number of reality programs designed to draw us into the hopes, fears, dreams, and idiosyncrasies of ordinary—or maybe not so ordinary—folks.

The onset of fall also means it is prime time for another annual tradition: year-end tax planning. And the spotlight is shining directly on you as the year winds down and you seek to capture your own market share of tax-saving tactics and negotiate revenue-boosting maneuvers.

You still have time before the new year arrives to take simple steps to increase your deductions and minimize your taxable income—keeping in mind that the ultimate goal is to pare down current taxes and to position yourself to achieve the best personal, family, and charitable goals. Read on to choose which program is best for you.

## DEAL OR NO DEAL? Taking Profits from Your Portfolio

After a jolting downward spiral from 2000 through 2002, the three major market indices have doubled or nearly doubled their levels over the last five years. Skittish from the recent market tumble, many investors are wondering if they should dispose of some of their holdings to protect their hard-won gain.

However, selling has a consequence of its own. This comes in the form of a tax on your gain—up to 15% if you have held the securities for more than one year. The more successful your investment in securities has been, the more capital-gain tax you would owe.



## SURVIVORS: Creative Charitable Planning Preserves Gain

Appreciated investments present a host of attractive opportunities to fulfill your charitable objectives.

**Reasons:** A gift of appreciated property allows you a deduction for its full fair-market value, and you avoid capital-gain tax.

**Example:** *Jeff L, a loyal and generous supporter of Duke Medicine, makes an outright gift of \$25,000 each year to help with our annual operating expenses.*

*As the stock market has risen over the last five years, Jeff finds himself holding several stocks with impressive gain. To fund his gift to Duke Medicine this year, Jeff instead decides to transfer stock worth \$25,000 that he bought in 2002 for \$5,000.*

**Results:** *He can claim a deduction for the full \$25,000 value of the stock, even though he paid only \$5,000 for it, saving \$8,750 in his 35% tax bracket.*

*Jeff also avoids \$20,000 of long-term capital gain that would have cost him \$3,000 in tax had he sold his stock instead. Total savings: \$11,750.*

| STOCK HOLDING:<br>\$100,000 CURRENT VALUE |                     |                  |                        |
|---|---------------------|------------------|------------------------|
| Original Cost                             | Capital-Gain Profit | Capital-Gain Tax | % of Value Lost to Tax |
| \$10,000                                  | \$90,000            | \$13,500         | 13.5%                  |
| \$20,000                                  | \$80,000            | \$12,000         | 12.0%                  |
| \$30,000                                  | \$70,000            | \$10,500         | 10.5%                  |
| \$40,000                                  | \$60,000            | \$ 9,000         | 9.0%                   |
| \$50,000                                  | \$50,000            | \$ 7,500         | 7.5%                   |



**Giving stock does not have to mean giving up on the stock.** Even if you are quite happy with the current composition of your portfolio, you may still benefit by giving stock instead of cash.

**Here's how:** Make a gift to Duke Medicine of some appreciated stock, and use cash to reestablish your position by buying the same stock again. It will have a higher cost basis (equal to the current price), and this will reduce your tax liability further down the road. **Pointer:** If you happen to hold stocks that have decreased in value, consider selling them first and making a gift of the proceeds to Duke Medicine. The loss can offset other gain—or ordinary income up to \$3,000 if you have more loss than gain.



## CASH IN THE ATTIC? Options for Real Estate

As the stock market struggled in 2000, 2001, and 2002, real estate recaptured the imagination of the American public, leading to a broad-based run-up in prices previously seen mostly in major metropolitan, coastal, and resort areas. Recently, though, this boom seems to have at last reached a plateau—and prices in some areas have dropped precipitously, leading some to dispose of their property and move on. Unlike stocks, there is no immediate market for real estate—making liquidity a major concern. **Pointer:** Real estate owners may find a broader range of options for realizing the full value of their holdings by using them in their charitable planning. As with securities, deductions for gifts of real estate are based on full fair-market value and allow donors to shelter capital gain from tax.

**Example:** *Fred and Betty T, both 80, own a \$300,000 vacation house at a lake quite a distance away. While its value has increased substantially over the years, prices have started to weaken lately. They also want to fund a major project at Duke Medicine.*

*Since they rarely use this home anymore and they would like to find a way to benefit from it before it drops in value, Fred and Betty decide to use their vacation home to fund their gift. Results: They take a deduction for the home's current value and save \$105,000 in their 35% tax bracket. What's more,*



since they paid only \$50,000 for it 30 years ago, they will not have to pay any capital-gain tax on the \$250,000 appreciation.

**Flip That House.** Real estate can also be an excellent asset to fund a gift that pays you income for life. For example, many of our donors have used real estate to create charitable trusts that make annual payments to them for their lifetimes, after which the trust assets

**Gifts of real estate deliver deductions and minimize taxes.**

pass to Duke Medicine for the charitable purposes they designated.

**Example:** Over the years, Carol J, 74, has seen her vacation house grow in value from her original purchase price of \$100,000 to \$400,000. She thinks this may be a good time to sell and use the proceeds to increase her retirement income. She is put off, though, by the thought of paying a tax on \$300,000 of gain.

She decides to transfer the property to a special type of trust. After the property is sold and the proceeds are invested in a diversified portfolio, Carol will receive annual income equal to 6% of the market value of the trust, as revalued annually. In addition, neither Carol nor the trust will have to pay any immediate capital-gain tax on the \$300,000 appreciation. Moreover, Carol will be entitled to a deduction of \$217,343 for 2007—saving her more than \$76,000 in her 35% tax bracket. Upon her passing, the remaining trust assets will pass to Duke Medicine, to be used for the specific purpose designated by Carol.



## TUNE US IN

Year-end planning provides an annual opportunity to bring your financial picture into focus. Call us for a more detailed explanation of how to make the gift of your choice—and to help you in your planning, we would like to send you a complimentary copy of our 2007 year-end giving booklet, *7 Charitable Tax-Wise Moves You Can Make Now*. Simply call our office or return the enclosed card to request yours.



## EXTREME ROLLOVER: IRA—2007 Special Edition

Thanks to the Pension Protection Act of 2006, taxpayers who are at least 70½ can make charitable transfers of up to \$100,000 this year directly from their IRA accounts to qualifying charities—without having to treat the transfers as taxable distributions.

This special opportunity is set to expire at the end of this year. Please call on us for our help to determine if this gift is right for you.

### To qualify for this special treatment:

- Transfers must be directly from IRA custodians to charitable organizations
- Gifts must be outright—transfers for life-income gifts are not eligible

**Who can benefit?** This may prove especially attractive for:

- Taxpayers who may be subject to AMT
- Taxpayers who make gifts in excess of normal deduction limits
- Donors who do not itemize deductions for federal income-tax purposes
- Residents of states that do not provide for separate deduction of charitable contributions for state-tax purposes

**Added bonus:** You may count your qualifying transfers toward your minimum required distribution for 2007.

# Frequently Asked Questions About Charitable Gift Annuities

## What exactly is a charitable gift annuity?

A charitable gift annuity is a contractual agreement between a donor and a charitable organization under which the charity agrees to pay a fixed annual amount to one or two designated beneficiaries for life.

## I rely on the income my assets generate. Can I make a charitable gift annuity contribution and still maintain my standard of living?

Yes. A charitable gift annuity may actually increase your annual cash flow.

First, the gift annuity provides you with a guaranteed, fixed stream of income for as long as you live. The specific rate you receive depends on your age, with older beneficiaries receiving a greater percentage

than younger beneficiaries because they have a shorter life expectancy. Duke Medicine issues gift annuities in any amount of \$10,000 or more, and the chart below shows the rates we currently offer at various representative ages.

The payment from your gift annuity is likely to exceed the interest you are getting on traditional investments such as CDs, money market funds, and bank savings accounts.

In addition, a gift annuity contribution will enable you to claim a sizable income-tax deduction. (See chart.)

## Are there other tax advantages?

Definitely. Your gift annuity contribution is treated for tax purposes as part gift, part investment. Consequently you do not have to pay tax on the portion of your payment that represents a return of your investment.

### Sample Benefits for a \$100,000 Gift Annuity

| AGE(S)                | ALLOWABLE PAYOUT RATE | ANNUAL PAYOUT | TAX-FREE PORTION | CHARITABLE DEDUCTION | TAX SAVINGS IN 33% TAX BRACKET |
|-----------------------|-----------------------|---------------|------------------|----------------------|--------------------------------|
| <b>One annuitant</b>  |                       |               |                  |                      |                                |
| 65                    | 6.0%                  | \$6,000       | \$2,952          | \$41,310             | \$13,632                       |
| 75                    | 7.1%                  | \$7,100       | \$4,189          | \$48,082             | \$15,867                       |
| 85                    | 9.5%                  | \$9,500       | \$6,659          | \$54,744             | \$18,066                       |
| <b>Two annuitants</b> |                       |               |                  |                      |                                |
| 65-65                 | 5.6%                  | \$5,600       | \$2,643          | \$34,185             | \$11,281                       |
| 75-75                 | 6.3%                  | \$6,300       | \$3,566          | \$41,544             | \$13,710                       |
| 85-85                 | 7.9%                  | \$7,900       | \$5,317          | \$49,484             | \$16,330                       |

*Calculations are based on 6.2% representative discount rate.*

You should consult your attorney about the applicability to your own situation of the legal principles contained herein.

If you no longer wish to receive information from Duke Medicine regarding fund-raising and giving opportunities, please write to us at the address below.

**PLANNED GIVING STAFF**  
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