

Gift Planning Works For You

THE UNIVERSITY OF TEXAS AT AUSTIN

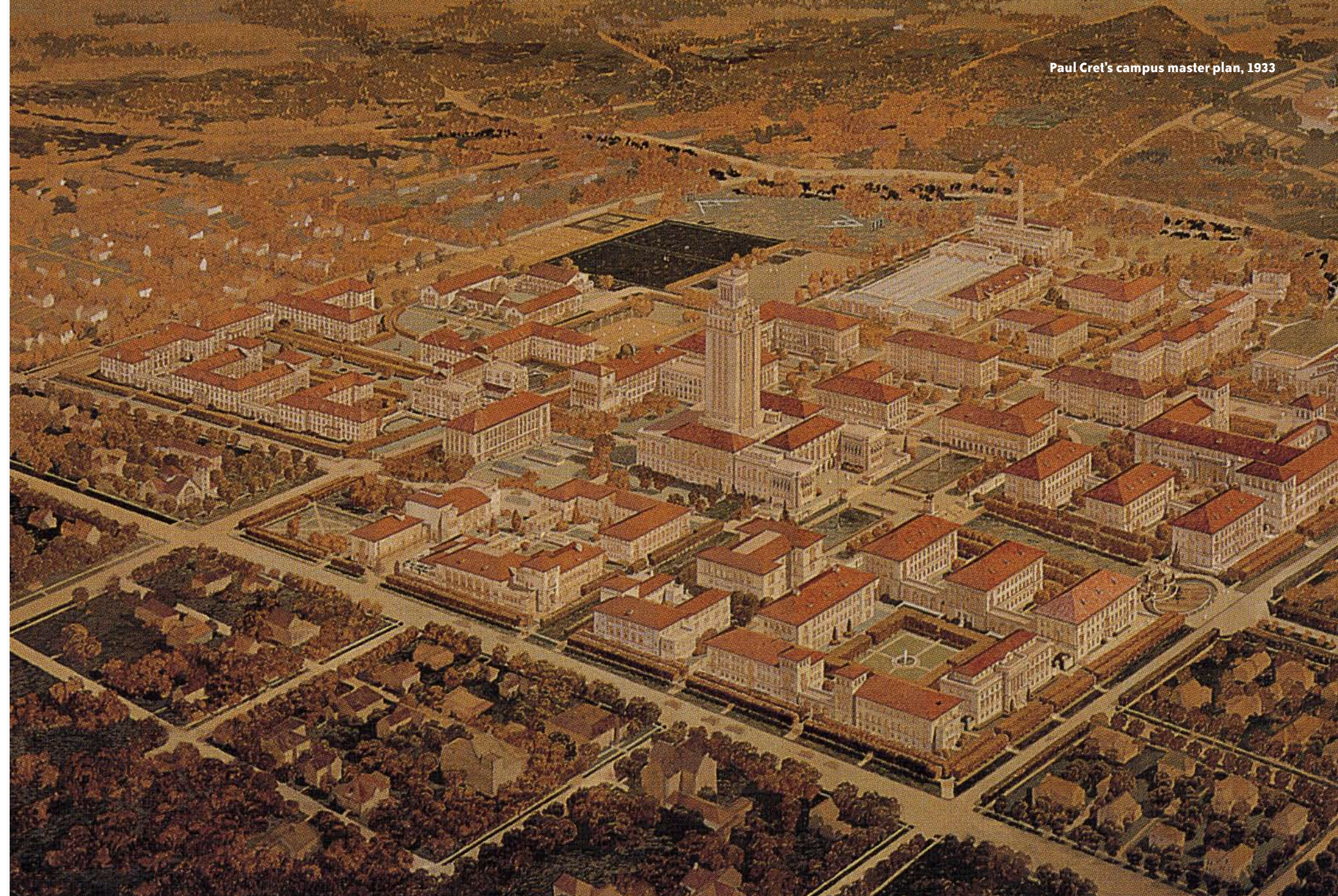


The UT Tower, standing tall in the Texas sky, is a beacon for doers and dreamers. It is a monument to the transcendent power of education and represents an institution with global impact. As one of the largest universities in the nation, The University of Texas at Austin offers extraordinary breadth and depth in its academic disciplines, artistic and cultural treasures, and research enterprise. It boasts faculty who are giants in their fields — Nobel laureates, Pulitzer Prize winners, and recipients of MacArthur genius grants. Students from around the world compete to study in the University's 17 colleges and schools.



Building on a proud past

You can help carry on the important work that began when the University opened its doors in 1883. Since then it has inspired feelings of loyalty, commitment, and pride among its alumni and friends. Many have chosen to give back to areas or programs that are especially meaningful to them. Thanks to their generosity and foresight, the University is stronger than ever and poised to become the best public research university in the country. You can join this honorable tradition.



Changing the future while caring for your family now

What matters to you? Most of us have felt the desire to make a difference, to give back to something that has changed our lives for the better. At the same time we are concerned with providing for ourselves and our loved ones.

The Gift Planning team at The University of Texas at Austin can help you do both. Maybe you want to make sure a loved one is cared for after you are gone. Perhaps you need a supplemental source of retirement income. Maybe you need to tap a long-held asset but can't afford to take the capital gains tax hit. You probably want to provide for loved ones at reduced tax costs. You can do any of these and at the same time support something that is meaningful to you at The University of Texas at Austin.

Everyone has different planning goals and priorities. Search these pages for the personal circumstances that best match your own. Our gift planning team is ready to help you consider how benefiting the University can be part of your planning. And, of course, your gift can be as specific as you'd like. Whatever your passion in life, you can find it at The University of Texas.



Martin and Rosana Lizárraga, with children Catalina and Alejandro, have bequeathed money to the College of Communication and the School of Nursing.

The “what” of giving

Tax savings can make your gift to The University of Texas at Austin worth much more than it costs. Your cost of giving decreases when:

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- You make an outright gift and take a federal income tax charitable deduction. For example, if you’re in the 28% tax bracket and give \$1,000, you could save up to \$280 in income tax, reducing the cost of the gift to \$720.
- You give appreciated assets and avoid capital gains tax.
- You use your business to give. In some cases, your business can buy back shares you have contributed without adding to your taxable income. Further, the appraised value of the shares may count toward a charitable deduction.

Any of the following can be given to UT Austin:

- Cash
- Securities
- Real estate
- Retirement plan assets
- Life insurance
- Business interests
- Natural resources
- Artwork and collectibles
- Intellectual property



The “how” of giving

An important part of gift planning is deciding how to give. You can:

- Make an outright gift
- Make a series of gifts
- Make an estate gift
- Create a plan that provides income for yourself and/or a loved one and benefits the University in the future
- Create a plan that provides income to the University and returns assets to you or your heirs
- Supplement lifetime gifts with an estate gift

Estate gifts include:

- Outright gift provisions in wills or testamentary trusts; you can place conditions on your gift
- Provisions in revocable or “living” trusts
- Beneficiary designations for retirement plans, insurance policies, group term insurance plans, bank accounts, and brokerage accounts

All bequests and beneficiary designations should be made to “the Board of Regents of The University of Texas System for the benefit of The University of Texas at Austin. This gift shall be used for the further benefit of [COLLEGE, SCHOOL, UNIT] and shall be used to _____.”

The “when” of giving

Gift planning can help when you want to:

- 1 Continue your family’s values
- 2 Give back
- 3 Diversify your assets or earn additional income
- 4 Plan for the financial needs of a loved one
- 5 Save for retirement
- 6 Downsize a personal residence
- 7 Plan for the transfer or sale of a business
- 8 Extend tax benefits
- 9 Reduce your heirs’ tax burden
- 10 Leave a charitable legacy

1 Continue your family’s values

Financial and estate planning usually includes a discussion of family values and how to ensure that those values continue for generations to come. The Office of Gift Planning can facilitate these discussions and review the tools available to accomplish your goals. A gift to UT Austin can be named in honor of a family member or loved one.

2 Give back

Many alumni and friends of UT Austin believe the University deserves some of the credit for their personal and financial successes. Gift planning can show you how to invest in the University and ensure that future generations also receive superior opportunities.

3 Diversify your assets or earn additional income

Gift planning can be a tax-savvy way to diversify your assets. Perhaps one of your assets has reached its maximum value or you’re considering selling an asset for the income.



Margaret Berry has created a bequest for scholarships in religious studies.

EXAMPLE: Joe and Mary have long wanted to give to the University. Mary inherited stock from an uncle, and its value has increased considerably. They are considering selling the stock and giving some of the proceeds to the University.

They would be better off giving some of the stock to the University directly before selling the rest. They would owe no capital gains tax on the gifted shares, and they might save on their income taxes. They can give thousands of dollars of value to the University at little cost to themselves.

EXAMPLE: Celeste needs supplemental income. She owns some appreciated stock and income-producing land, but nothing is left after she pays real estate taxes and insurance. Capital gains taxes will cut into her income if she sells the stock or the land. She fears she won’t be able to make the gift to the University she has always dreamed of.

The answer may be a charitable life income plan, where Celeste donates her assets to the University and in return

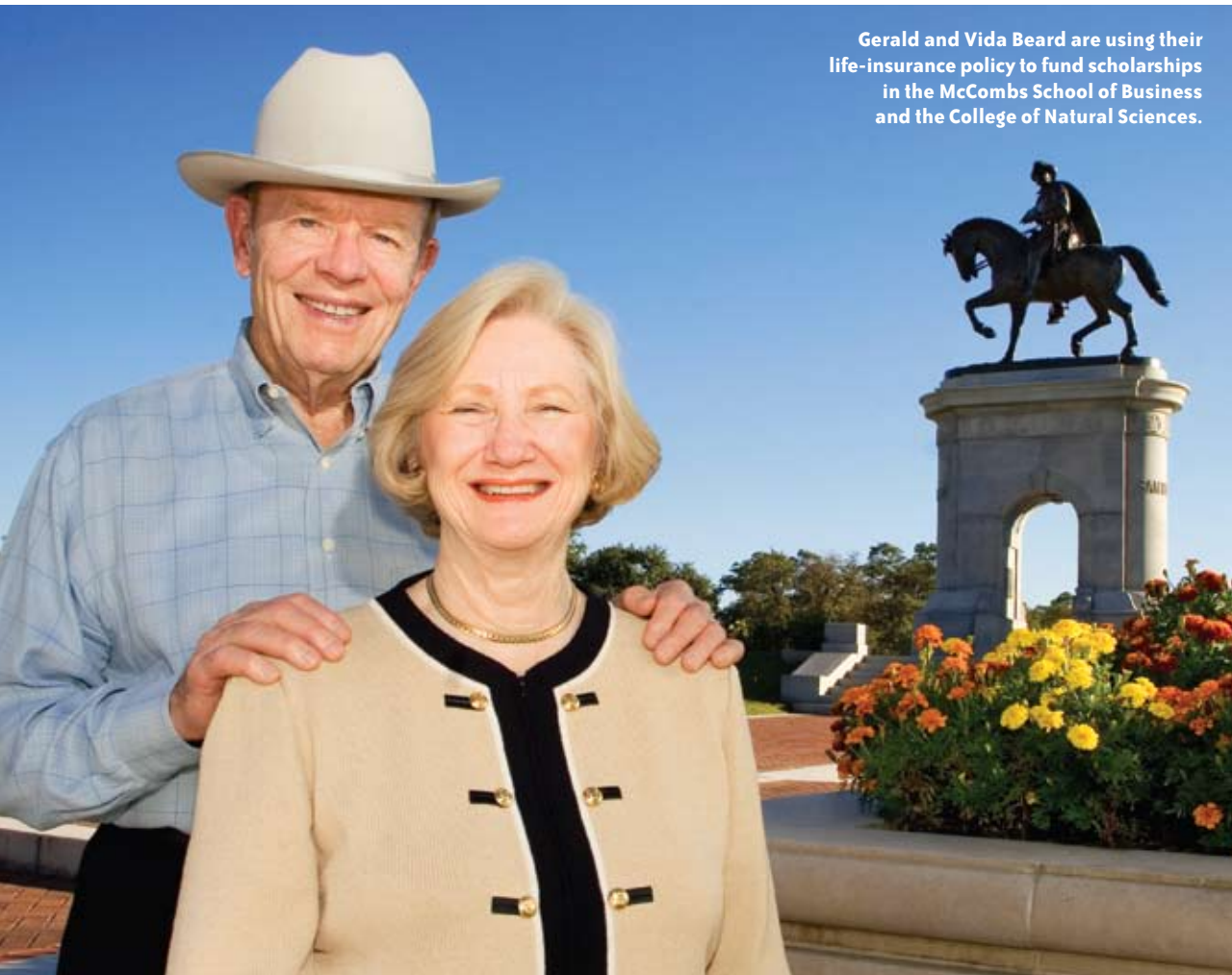
receives an income for the rest of her life. She can choose a fixed or variable income, and no capital gains tax would be owed. Celeste may also save on her income taxes.

EXAMPLE: Cesar recently retired. Most of his retirement assets are in domestic common stock, and he wants to reduce his stock holdings and increase his fixed income investments. He also wants to make a gift to the University.

Cesar can accomplish all his goals with a charitable gift annuity. The annuity will pay Cesar and his wife a fixed income for the rest of their lives and may pay more than currently offered through certificates of deposit, bonds, or money market funds. Part of the annual payment will be tax-free, and part will be taxed at a lower rate for many years to come. Cesar might also save on his income taxes. After Cesar and his wife have died, the remaining assets won’t be subject to estate taxes and will be used by the University as he requested.

4 Plan for the financial needs of a loved one

Sometimes we want to provide for a friend or family member but may not want that person to inherit our assets. Charitable life income plans can provide supplemental income — even after the benefactor’s death — while saving the assets for charity.



Gerald and Vida Beard are using their life-insurance policy to fund scholarships in the McCombs School of Business and the College of Natural Sciences.

CHARITABLE LIFE INCOME PLANS

WORK PARTICULARLY WELL WHEN:

- You want to provide for a surviving spouse but want some or all of the assets to pass to the University.
- You want to provide supplemental income to a special-needs person without disqualifying the person from other benefits.
- You want to provide for a loved one but want to protect the person’s financial interests by paying the income to a trust.
- You want survivors to receive income from your qualified retirement plan but want to preserve the plan’s accumulated value for charity.
- Both fixed and variable charitable life income plans are available, and you can receive income for yourself as well as others. You don’t have to pay income taxes on income others receive from the plan, and income tax deductions are also possible. When you and your spouse are the only income recipients the assets won’t be subject to death taxes.

5 Save for retirement

Many people find that most of their retirement assets are in tax-deferred qualified plans. But qualified retirement plans carry an extensive set of rules, and distributions are subject to income and estate taxes. Depending on the taxes due, the owner’s heirs could receive less than half of the balance.

But there is a way to ensure that none of the balance is taxed. A charitable life income plan provides a supplemental source of income during retirement and is more flexible than a qualified retirement plan.



Former student-body president Annie Holand Miller has included Student Affairs in her will.

SOME ADVANTAGES:

- No limit on annual contributions.
- No minimum contributions.
- No multi-year commitment on annual contribution amounts.
- A charitable life income plan can be established with only \$10,000 in cash or marketable securities.
- A portion of each contribution qualifies for an income tax deduction.
- Distributions can begin on a set date or after a pre-determined event.
- The recipient can choose when distributions begin.
- Distributions can be taken before age 59½ without penalties.
- Distributions can be delayed until after age 70½ without penalties.
- Part of the annual distribution may be tax exempt or tax favored.
- If the donor and spouse are the only beneficiaries, no income tax or estate tax is due on the plan balance because 100% goes to the charities the donor has selected.
- People often find that they have the most flexibility by having several different types of retirement plans, including tax-deferred qualified plans, Roth IRAs, and charitable life income plans.

6 Downsize a personal residence

Deciding where to live during retirement may include downsizing to a smaller residence or retirement community. Charitable gift planning can reduce or eliminate long-term capital gains tax from the sale.



EXAMPLE: Abe and Betty, a married couple, are ready to downsize and sell their \$1.25 million primary personal residence. They paid \$400,000 for the home. The first \$500,000 of the \$825,000 gain is often exempt from capital gains tax, leaving \$325,000 taxable. At a tax rate of 15%, they will owe \$48,750.

They could keep part of the ownership in their home and contribute the rest to a charitable life income plan. Then they and the trustee of the plan could sell the home together. If they retained 55% ownership and contributed 45% to the charitable life income plan (they must vacate the home before deeding the 45% to the trustee of the charitable life income plan), the results would be:

- Their 55% ownership interest equals \$687,500 of the \$1.25 million value, and their investment is now 55% of their original \$400,000 cost, or \$220,000. When their share is sold, their profit would be \$687,500 minus \$220,000, or \$467,500. Since this is less than \$500,000, none of their share of the profit would be reported as long-term capital gains. They'll

have the \$687,500 minus their share of the sale costs toward their smaller home.

- The 45% ownership interest they contributed to the charitable life income plan equals \$562,500 of the \$1.25 million. When the share is sold, the full \$562,500 is retained because the plan doesn't have to pay long-term capital gains tax. The entire \$562,500 is invested, and a percentage of the assets is paid yearly to Abe and Betty for the rest of their lives.
- If the payout percentage is the recommended 5%, they will receive about \$28,000 annually. That amount includes 5% of the \$48,750 in taxes that would have been due if they had owned 100% of the house when it was sold — about \$2,400 in extra income annually.
- They may be able to take an income tax charitable deduction for 30% or more of the value of the portion of the home they contributed.
- When the surviving spouse dies, the trust assets — about \$562,500 — are given to the charities they selected.

7 Plan for the transfer or sale of a business

Transferring ownership of closely held businesses can be one of the most challenging tasks in financial and estate planning. It may involve giving heirs minority interests in the business while retaining management control. Making charitable contributions of minority interests at the same time can be useful in dealing with valuation challenges.

Sometimes plans change and a business owner needs to sell. In these situations, it's important to consider what percentage of the sale proceeds will be subject to long-term capital gains taxes.

The best time to evaluate how charitable gift planning could reduce long-term capital gain is early in the sale process, before a buyer could force the seller to complete the sale. Trying to use charitable giving to reduce taxable income after the fact is usually futile.

There are two options when the sale of a business would generate a large amount of long-term capital gains, and each must be used before the buyer can demand that the sale be completed: (1) Make an outright contribution of some of the equity to charity, or (2) Contribute some of the equity to a charitable life income plan.

EXAMPLE: The Gonzales family has owned a business for two generations and is considering selling. Pete's share of the proceeds would be \$3 million, all of it subject to long-term capital gains tax. At a tax rate of 15 percent, he could lose \$450,000 of the proceeds to taxes.

If Pete was planning to invest his after-tax proceeds, \$2.55 million, to produce retirement income, an investment earning 6% would yield \$153,000 annually. Instead, Pete could make a future gift to UT Austin with very little change in his annual income. He could contribute \$1 million to a charitable life income plan before the business is sold. At a capital gains tax rate of 15%, he would owe \$300,000 on the remaining \$2 million, leaving \$1.7 million to invest.

Pete's \$1 million contribution to a charitable life income plan paying 5% would produce \$50,000 in annual income. Investing his remaining money at 6% would yield \$102,000 yearly, bringing his combined annual income to \$152,000.

Pete has just \$1,000 less in annual retirement income, but he has made a future gift to UT Austin of about \$1 million.



Mark Matthews has created a scholarship in honor of his late parents.

8 Extend tax benefits

Using real estate in a trade or business, rental real estate, or ownership in a mineral interest partnership can yield a large income with only a small portion subject to income taxes. The reason: depreciation and/or depletion deductions. But once all the operating costs, depreciation and deductions have been taken, 100 percent of the income is taxable.

If you want to make a significant charitable contribution, you may be better off giving the real estate or partnership interests to fund a charitable life income plan. Usually, all long-term capital gains can be avoided, and part of the value of the contributed assets qualifies for an income tax deduction. You'll pay less in taxes, and more of the sale proceeds can be invested in the charitable life income plan. After the donor's lifetime, the remaining assets are distributed to charities, including UT Austin, to be used as directed by the donor.

This strategy can also be a way for a longtime landlord to retire from operating residential real estate and have an income for retirement years.



9 Reduce your heirs' tax burden

Charitable gift planning can reduce or eliminate gift, estate, or generation-skipping taxes. The value of the taxes saved can go to charities instead of the IRS. With careful planning, charitable gifts won't reduce the amount heirs will receive and in some situations can increase the amount of an inheritance.

Certain assets bring particularly heavy tax burdens for heirs, including the balance left in tax-deferred retirement plans such as IRAs. After income and estate taxes, heirs may receive half or less of a plan's balance.

A smarter choice is to leave retirement plan assets to charity and leave other assets to heirs. That way the entire plan balance can be used according to a donor's wishes — with no tax due whatsoever.

Charitable gift planning can even increase the total amount heirs will receive.

EXAMPLE: Alexander wants to give \$5 million to UT Austin and \$5 million to his heirs at his death. If he leaves the \$5 million to his heirs, almost half of it could go to estate taxes.

But there is a way he can make the \$5 million gift and increase the amount his heirs will receive. He can give \$10 million to a special charitable trust that will last 10 years. Each year 5% of the \$10 million, or \$500,000, will be paid to the University. Over 10 years the University will receive \$5 million from the charitable trust. At the end of the 10 years, all the assets in the trust will be distributed to his other heirs.

THE TAX CONSEQUENCES ARE AS FOLLOWS:

- Only about \$6.3 million of the \$10 million is taxable, saving \$1.6 million in estate taxes.
- The \$1.6 million in estate taxes has been saved because the \$10 million inheritance was delayed for 10 years. A phased inheritance may be preferred for some heirs.
- After 10 years, the other heirs receive all the assets in the trust without owing any additional estate taxes. Depending on how

the trust assets are invested, the other heirs could receive \$10 million instead of the \$2.5 million they might have received if Alexander had left them \$5 million directly.



Randy Pickett, with wife Emily and daughter Sarah Elizabeth, is giving to help students with cognitive disabilities.

10 Leave a charitable legacy

Sometimes people leave their heirs two types of inheritances: a personal inheritance and a charitable inheritance. The charitable inheritance can be the right to make grants to charitable organizations from the earnings on a permanent pool of assets. The ability to make grants can continue for more than one generation, ensuring the continuation of philanthropic giving that represents the family's values. Further, assets set aside for philanthropic giving usually are exempt from estate taxes.

The permanent pool of assets for charitable grant making can take several legal forms, including a private foundation, a donor advised fund, or a subsidiary of a public charity.



Doing well while doing good

You don't have to choose between providing for your loved ones and supporting the University. The Gift Planning team at The University of Texas at Austin can help you support your passions and create the kind of gift you've always wanted to make — even if you never thought it was possible.

Gift Planning team members work closely with professional advisers and rely on them to determine how donors can use the various gift plans available. Of course, there is never any cost or obligation to use the educational services provided by the Gift Planning team.

We look forward to helping you create a giving plan that suits your needs, your desires, your life.

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**WE CHANGE PEOPLE.
THEY CHANGE THE WORLD.**



THE CAMPAIGN FOR TEXAS