visions IN PERSONAL PLANNING

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If and Then: What Happens Next?

Mathematicians and computer programmers use conditional statements—*"If a, then b"*—as crucial building blocks for countless theorems and algorithms. Some are quite simple, while others can be exceedingly complex.

Of course, we encounter *"if-then"* logic on a regular basis outside the math realm. We don't have to be experts in physics or gravity to know that if we drop an apple, then it will fall to the ground. We also know that if we need medical attention, then we should consult a physician (rather than simply relying on information found on the internet).

If-then principles can also apply to gift planning. In this issue of *Visions*, we look at some of these principles and how they can be used in specific situations. For example, **if** you own an IRA, **then** you may be able to use your IRA assets to make a meaningful gift in a tax-favored way.

We invite you to take a few moments to read further and learn more about some of the *"if-then"* realities that may be helpful in your estate and charitable planning. Please contact us if you have questions or would like to receive our free brochure, *10 Year-End Taxpayer Strategies*. Just return the enclosed card, send an email, or give us a call. Thank you once again for your ongoing support of ZBT and the work of the Foundation.

Cordially, Fraternally and Sincerely,
Faron A. Lewitt

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To inform us of your membership in the City of Light Trust, please contact the Zeta Beta Tau Foundation's Executive Director, Faron A. Lewitt at 317-506-7066 or at faron@zbtnational.org.

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Income Matters

Income matters and, for some, one year can be significantly better than others. If you expect to receive a large boost in income, then the timing of a charitable gift is important. Gifts, of course, qualify for a tax deduction in the year they are made. If you expect more income this year from earnings or investments, a gift made by December 31 can reduce your tax bill significantly.

A tax deduction makes a real difference

Generally speaking, the higher your income, the greater your tax bill. As your income increases, the percentage of tax that you are expected to pay on your income also increases. The lowest federal income tax rate is 10%. When an individual reaches specific taxable income thresholds, the rate increases to a maximum rate of 39.6% for individual taxpayers with taxable income over $418,400.

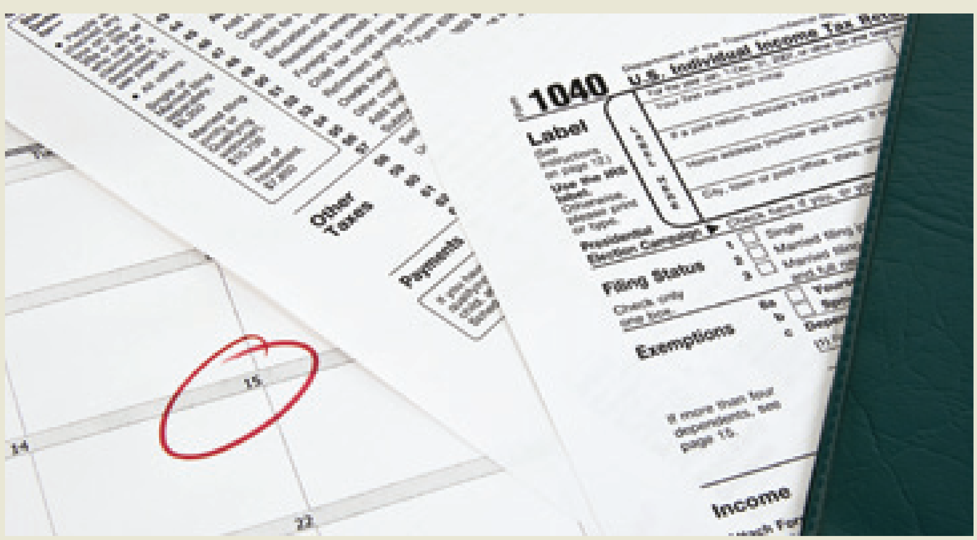
The key to a lower tax bill, then, is a lower taxable income.

EXAMPLE: George was rewarded with a significant bonus this year and knows his taxable income will be higher than usual. He is in a position to make a substantial gift and decides to give $50,000 to our endowment fund. By making this gift, George's taxable income is reduced by $50,000, which saves him $16,500 in taxes. The true cost of his gift is $33,500—the difference between the gift amount and the tax savings ($50,000 – $16,500 = $33,500).

Appreciated stock

Another option that can make an important tax impact is a gift of appreciated stock. For stock held more than one year, the full amount of the gift is deductible and no capital gains tax is due on the stock's appreciated value. Assume, for example, that Sally purchased stock for $5,000 and it is now worth $20,000. If Sally makes a gift of this stock, she can deduct the full $20,000 value if she itemizes her taxes. In addition, she pays no taxes on the $15,000 appreciation. It's a double tax benefit—a tax deduction and no capital gains tax is due.

There is another reason for considering a gift of appreciated stock—particularly if you are considering selling stock. The net investment income tax is a 3.8% surtax that applies when an individual reaches specific income threshold amounts ($200,000 for singles and $250,000 for couples). Capital gains tax from the sale of appreciated stock can trigger this surtax. By making a gift of the stock, you can avoid the net investment income tax.



Controlling Your Assets

Even the most elementary budget recommendations emphasize the need to accumulate an emergency reserve to meet unexpected needs or take advantage of attractive opportunities. These reserve funds provide financial security and peace of mind.

If you want to balance the need for financial security with the desire to advance our mission, then you may be interested in giving options that allow you to support us in meaningful ways while maintaining control of your assets.

A gift in your will or trust

A simple and effective way to make a personally meaningful gift is to include us in your will or living trust. In addition to supporting our work, you set an example that encourages others and expresses the values that are important to you.

Whatever the size of your estate, it's important to have an up-to-date will or trust that details the ultimate distribution of your assets. It's easy to include a charitable gift during creation or to amend an existing will or trust—you need not draft an entirely new document in order to add a gift.

There are a variety of options to choose from when deciding how to make a gift in your will or trust. You can allocate:

- A percentage of your estate
- A specific amount
- Your residual estate—what is left after all other obligations have been met (costs, debts, taxes, and other specific designations)

You can also direct assets into a charitable remainder trust. The trust can pay an annual income to your named beneficiaries for life, with the remainder of the trust assets distributed to our organization when the beneficiaries die.

Retirement assets

Since none of us can predict how long we will live or what will happen to the economy, one retirement question remains: "Will my assets last a lifetime?" Most of us want to preserve qualified retirement plan assets as long as possible; nonetheless, under the right circumstances, retirement assets can be used to meet charitable goals.

If you are an IRA owner age 70½ or over, your annual required minimum distribution (RMD) presents a gift opportunity when you do not need the distribution or do not want to pay the additional income tax that will be due. You can direct your IRA custodian to make a qualified charitable distribution (up to $100,000) from your IRA directly to us. This distribution counts toward your RMD *and no tax is due!* It's a simple, tax-wise way to meet charitable goals and make an immediate impact, and you are allowed to make these gifts every year.

Another excellent way to use retirement assets is to name us the beneficiary of your qualified retirement plan. There are two distinct benefits. First, you retain lifetime control of your retirement funds. Second, if you leave these tax-deferred assets to heirs, they must follow distribution rules and pay income tax on funds upon distribution. Leaving other assets to loved ones (appreciated stock, for example) can be better for them from a tax standpoint. Feel free to contact us for more information.

REMINDER: YEAR-END GIVING IS IMPORTANT

Giving makes an important difference, since both givers and receivers are enriched by gifts. Indeed, helping others is a tangible, meaningful, and fulfilling acknowledgement of the blessings we've enjoyed and the success we've achieved.

As you consider the year-end possibilities for incorporating charitable giving into your personal and financial planning, you can be certain that every charitable gift matters, is greatly appreciated, and is immensely helpful. By joining like-minded philanthropic supporters who share your vision for our work, you can be certain that you are personally involved in making a difference for others.

Property possibilities

Selling highly appreciated property can result in a substantial tax bill, with the gain taxed at 15% or 20%. But like gifts of appreciated stock, the gift of a home or other real estate lets you enjoy an income tax deduction for the full value of the property while avoiding the capital gains tax on the appreciation.

EXAMPLE: Nathan owns a vacation home worth $300,000, purchased over 20 years ago for $100,000. Selling the home will result in a substantial capital gains tax on the $200,000 appreciation. Instead, Nathan makes a gift of the property. He qualifies for a tax deduction equal to the full value of the property—$300,000—and no capital gains tax is due.

Make It Happen

Your personal goals and needs are unique and subject to change. Whether you are planning a year-end gift or a long-term strategy for including charitable giving in your estate plan, it would be our pleasure to help you examine your options. Good planning makes great things possible, maximizing benefits for you and for Zeta Beta Tau.

Just email, give us a call, or return the enclosed card to find out more. Be sure to ask for our free brochure, *10 Year-End Taxpayer Strategies*. This brief guide will help you examine how a year-end gift might fit into your overall planning. Thank you again for your thoughtfulness and generosity—we look forward to hearing from you.

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