FINANCIAL GUIDE

For the Friends of PURDUE UNIVERSITY

Fall 2005

Planning Ahead: Thoughtful Ways to Close Out 2005

Dear Friends,

At the end of the year, many of us seek out newspapers, magazines, or television shows that recap significant events of the past year: the survival story of someone who beat the odds; a famous celebrity who passed away; a scientific breakthrough that will make our lives better.

But not every important event is a headline grabber. Take year-end planning, for example. By coordinating your financial, estate and gift planning, you may be able to make a big difference in your future *and* ours.

In this issue of *Financial Guide*, we focus on planning ideas that can help you now and in the future. Assuming you have made sound investments, you still may need to ensure good, predictable streams of income and minimize your tax liability.

One of the secrets to effective planning is selecting the right asset to give, and knowing how the timing of the gift affects your overall financial picture. Gifts of stock, for example, are easy to make and often can provide enhanced tax and financial benefits as you close out the year. You may also want to consider a gift strategy for implementation in the coming year, such as a gift of real estate. The opportunities for implementing your gift plan may be particularly timely during The Campaign for Purdue.

Whether you are looking for tax-wise ideas to save money this year or thinking about steps you might take a few months down the road, these ideas are certainly worth considering. Take a few moments to read this issue. And if you're interested in more information, use the enclosed card to request our helpful booklet, ***Smart Personal Planning — Strategies for Today and Tomorrow***. As always, let us know if there is any way we can be of service.

Sincerely,

Gordon D. Chavers
Sr. Director of Planned Giving

The Campaign for PURDUE

Smart Personal Planning

Timing Your Tax Deductions

Personal financial planning often includes strategies for paying taxes. If you itemize your deductions, remember that by accelerating deductible expenses, you can magnify their impact by "bunching" them in a single tax year. For example, perhaps your physician has recommended that you undergo a minor surgery in the next six months, the old computer in your home-based business needs to be replaced, and you would like to make a gift to Purdue University. You can choose to take action now and claim the deductions for these expenses all at once on your 2005 tax return, or delay taking action until next year (whichever makes more tax sense). "Bunching" your deductions to fall within a single tax year can make a big difference in your tax bill.

Gifts of Stock — A Smart Move for Today

With the stock market getting back on its feet, gifts of stock become more attractive. Look at your own portfolio. Some of your stocks have probably recovered quite nicely. And even those that have dipped may have years of built-in appreciation.

Stocks are often the gift asset of choice for donors who want to make an impact with their giving at a substantially reduced cost. The secret is in the double tax benefit.

Here's how the double tax benefit works: Suppose you give to The Campaign for Purdue 100 shares of stock with a current fair market value of $5,000. Assuming you bought the stock for $1,000 — and bought it more than a year ago — you still can deduct the full $5,000 on this year's income taxes (subject to broad limitations). And, the $4,000 gain is not taxed to you even though it has "inflated" the charitable deduction. These two tax benefits — working together — make it possible to give at a lower after-tax cost than a comparable cash gift.

More information about gifts of stock, including how to select the best stocks to give, is featured in our new booklet, ***Smart Personal Planning — Strategies for Today and Tomorrow***. You can get a free copy simply by using the enclosed card.

Gifts that Provide Income... a Good Move for Today and Tomorrow

In addition to outright stock gifts, listed stocks can be effectively used to fund life income gift plans. These plans can generate substantial tax benefits in the year they are set up... and provide a good income for the donor for life or a term of years. With some plans you can choose between a fixed and variable income. And with little if any valuation problems, such gifts are easy to make.

Two good reasons for using appreciated stock to fund a life income plan in today's market:

1. Unlock highly appreciated, low-yielding investments and increase income. If you participated in the market during the roaring 1990s, you probably have in your portfolio some highly appreciated stocks that pay little or no dividends. Suppose you now want more income for retirement. You can sell your stock and reinvest it to achieve a higher yield, but generally you will face a 15 percent capital gains tax liability.

If you are charitably inclined, a better strategy might be to fund one of our life income gift plans (say, a charitable gift annuity or charitable remainder trust) with the stock. You can reduce or eliminate your capital gains tax liability, and convert the stock into an income stream for life or a term of years. You receive a substantial income tax charitable deduction which will further improve your cash flow. And, you have the personal satisfaction of knowing that the remainder of your gift ultimately will impact our future work.

Example: *Jeremy Owens (age 64), owns an antique store. In the late 1990s, Jeremy purchased stock in an Internet auction service. Despite the hard times suffered by many dot-com companies, Jeremy's stock holdings have done rather well — his initial $10,000 investment is now worth $46,000 (though it was as high as $60,000 a year ago).*

Jeremy is glad that he purchased the stock, but he is somewhat weary of its volatility. He would like to nail down his gain and convert this stock holding into an income stream for life. After discussing matters with his advisors and our development office, Jeremy decided to make a charitable gift of the stock in return for a charitable gift annuity.

In return for his gift, Jeremy will receive a gift annuity payout of $2,760 every year for the rest of his life — that is a 6 percent annuity payout. And part of that payout will be tax free until he reaches life expectancy. He also will receive a charitable deduction of about $15,575 that he can deduct in the year of his gift and carry over any excess for up to five years. And he has the opportunity to spread the capital gains tax liability over the term of his life expectancy rather than pay it all at once. Jeremy is glad that the charitable gift annuity features several tax and financial advantages to complement his sincere wish to participate in The Campaign for Purdue. And both he and Purdue will benefit from the arrangement.*

** Illustration based on an Applicable Federal Rate of 5.0% and quarterly payment.*

2. Rebalance your portfolio. If you are retired or approaching retirement, you may want to make more conservative investments. Fixed income often replaces growth as a primary investment objective, especially during times of economic uncertainty.

Example: *Let's say your investment objective now is to have a mix of 40 percent in equities and 60 percent in fixed income, but you are still overweighted in stocks. Again, selling off stock to rebalance your investment mix might trigger a hefty capital gains tax. An option is to use a life income plan to avoid or reduce your capital* *gains tax liability, rebalance your portfolio, and at the same time make an impact gift to further our work. It's another good example of how charitable giving can be used to serve personal financial planning purposes while meeting important philanthropic needs such as The Campaign for Purdue.*

Other Appreciated Assets to Consider

There are, of course, sound and rewarding alternatives to gifts of stock. Other property may make a more appropriate gift, including bonds, mutual fund shares, tangible personal property, and real estate. Our booklet discusses these gift opportunities.

Planning Tip: While many kinds of appreciated assets can be used to make tax-efficient gifts, it's important to note that some gifts such as mutual funds and real estate take longer to complete. It often pays to get an early start with your planning. We can help you with the details.

Another Attractive Option: Convert Real Estate into an Income Stream

Real estate gifts are a particularly interesting consideration for many philanthropists today. Perhaps you have a vacation house, condo, or piece of commercial real estate you no longer wish to own or manage. Now may be the time to exit such properties given the high value of real estate in many areas. It may very well pay to consider funding a life income plan with real estate.

Example: *Seven years ago, Chris and Evelyn Hardwick (ages 66 and 64 respectively) purchased several acres of woodland near a wildlife preserve with the idea they would eventually build a new home and retire. Since that time, Chris and Evelyn have decided they really want to live near their children and grandchildren and plan to move into a condominium in the next year. The proceeds from the sale of their house will likely be enough to pay for their new home, but they are not sure what to do with the five woodland acres now that their plans have changed.*

After speaking with us and their own advisors, Chris and Evelyn decided to turn the woodland into a life income gift to us. They chose to use the charitable remainder unitrust, which will pay the Hardwicks an income of 5 percent of the value of the trust as assessed every year. The unitrust agreement contains a provision that triggers income payments only after the real estate placed in the trust is sold (which everyone expects will be fairly soon because the real estate is quite valuable to developers in that area).

The charitable remainder unitrust provides the Hardwicks a sensible way to dispose of the real estate and convert it into an income stream. Because the income is determined by a percentage of the unitrust as valued each year, the payouts would increase if the trust assets appreciate. Also, the Hardwicks enjoy an income tax charitable deduction for the present value of the charity's remainder interest. Plus, the Hardwicks can bypass any immediate capital gains tax liability. In short, the Hardwicks turn a non-income producing asset into a high income stream and receive substantial tax benefits while making a positive statement about their commitment to Purdue University.

Questions, Questions, Questions…

- How do you select the most tax-advantaged stocks for gift purposes?
- Can you use Social Security to your advantage in gift planning arrangements?
- What kinds of real estate are best for converting into an income stream?
- What deductions can you “bunch” to lower your tax bill? And, what are the minimum dollar amounts (or “floors”) required to take advantage of these deductions?

These questions and others are addressed in our new booklet, ***Smart Personal Planning — Strategies for Today and Tomorrow***. If you act today, you can also receive a free copy of our ***2005 Taxpayer’s Home Companion*** — a compendium of the latest tax rates and rules which you can share with your financial advisor. Please let us know if we can be of help. We look forward to hearing from you.

R. B. Stewart Society

Purdue founded the R. B. Stewart Society to recognize special benefactors who make commitments to the future of the University through their estate plans. The Society is named after Robert Bruce Stewart for his commitment to higher education, his efforts on behalf of the University, and his expression of faith in the future of Purdue through his own gifts.

Membership is available to individuals who have made a commitment to the future of Purdue through their estate plans, or with a life-income gift arrangement, regardless of the amount.

A written confirmation of the intent is required for membership. This might be a signed statement of support, a copy of the will or trust provision, or a letter from the donor informing the University of his or her plans.

A Special Window of Opportunity

In the wake of Katrina, Congress has provided additional incentives for charitable giving. For example, an individual’s deduction for cash gifts usually cannot exceed 50% of the donor’s adjusted gross income (excess deductions can be carried over for up to five years).

Congress has suspended this limitation temporarily, permitting individuals to claim deductions up to 100% of adjusted gross income for cash gifts made through 12/31/05.

If you are over 59 1/2 years of age, this change in the law may make it attractive for you to withdraw funds from your traditional IRA or other retirement account to make a charitable gift — and deduct the entire amount this year. Check with your tax advisor to see if this can work for you.

Remember — this window of opportunity remains open only until December 31, 2005. For more information, call the Planned Giving Office at (800) 677-8780 or (765) 494-8657.

PURDUE
UNIVERSITY

Planned Giving Office
Dick and Sandy Dauch Alumni Center
403 West Wood Street
West Lafayette, Indiana 47907
Toll free: (800) 677-8780 • Phone: (765) 494-8657
E-mail: plangift@purdue.edu