

THE ALLEGHENY PLANNER

A Guide to Financial and Charitable Gift Planning

Create a Legacy with Year-End Strategies

This issue of *The Allegheny Planner* invites you to prevail over this year's mercurial economic climate and take charge of your own financial situation with one of the most powerful—and often one of the most overlooked—areas of financial and tax planning: charitable gift planning. Using the six plans we outline, you can realize your hopes of creating a legacy at Allegheny, while maximizing your tax savings. You also can increase your spendable income significantly, depending on your particular goals and circumstances.

Our gift planning staff (below) will work with you and your advisors to ensure that your gift to Allegheny accomplishes your philanthropic and financial goals. You can reach us at 814-332-5906 or at giftplan@allegheny.edu.



Melissa Mencotti, director of gift planning; Linda Lees, gift planning office coordinator; and Julianne Weibel Foltz, advancement officer and gift planning specialist

Late-Breaking News

Congress just passed legislation allowing you to make a direct gift from your IRA to Allegheny and avoid all taxes. Don't miss this year's opportunity. Contact us today!

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Office of Gift Planning
Allegheny College
520 N. Main Street
Meadville, PA 16335
814-332-5906
giftplan@allegheny.edu

www.allegheny.edu

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Create Your Own Good News in Troubled Financial Times 6 Charitable Year-End Strategies

In the newspaper, on television, on the Internet—stories about the challenges facing the American economy are everywhere.

We have been buffeted about on the waves of rising gasoline prices and falling returns on income-producing investments. We have been bounced through the crests and troughs of an up-and-down stock market. Most of us are ready for some good news.

In the midst of these economic challenges, charitably minded people have ample reason to take heart. While you are unable to drive down the cost of regular unleaded, there are strategies to brighten your own personal economic forecast—strategies that even can take advantage of some of the current economic challenges.

In essence, you can create your own good news—if you incorporate the right strategies into your year-end tax planning.

In this issue of *The Allegheny Planner*, we examine six of the most powerful and creative strategies that you can use before year-end.

1. Cut Your 2008 Tax Bill While Supporting Allegheny

A gift to Allegheny by December 31 not only will enable you to make an investment in our mission, but also it can allow you to slash your federal tax obligation this year. If you itemize your deductions for federal tax purposes, the amount you save will depend on your marginal federal income tax bracket.

| 2008 Federal Income Tax Rate Schedule | | |
|---------------------------------------|---------------------|-------------------------|
| Rate | Taxable Income | |
| | Single Taxpayers | Married, Filing Jointly |
| 10% | \$0 - 8,025 | \$0 - 16,050 |
| 15% | \$8,026 - 32,550 | \$16,051 - 65,100 |
| 25% | \$32,551 - 78,850 | \$65,101 - 131,450 |
| 28% | \$78,851 - 164,550 | \$131,451 - 200,300 |
| 33% | \$164,551 - 357,700 | \$200,301 - 357,700 |
| 35% | \$357,701+ | \$357,701+ |

Example: Joe and Donna expect to have taxable income of about \$250,000 in 2008, which puts them in the 33% federal

tax bracket. They decide to make an unrestricted gift of \$20,000 to the Annual Fund this year.

Result: *This gift saves Joe and Donna \$6,600 in federal income tax (\$20,000 x 33%).* **Note:** *They may be able to save state income tax as well.*

Recalling a Rich Academic Experience

Bob and Ann Aronson Kistler -/’58 of Grants Pass, Ore., established a charitable remainder trust for Allegheny in 2000. “At Allegheny,” said Ann,



Bob and Ann Kistler at Reunion Weekend '08

“I received an outstanding education and made lifelong friendships, both of which continue to enrich my life today.” She particularly values what she calls the “rich academic experience” she gained from a trio of English professors, Julian Ross, Ted Seeley and Al Kern.

While fond memories prompted their generous gift, the Kistlers also chose to establish the trust for Allegheny because of their impressions of the school in more recent years. “My husband and I are both impressed with the way Allegheny relates to alums,” Ann said. “Bob attended two other institutions, and Allegheny is hands-down the friendliest. And the reunions are wonderful. The years evaporate, and you realize what a wonderful experience you all shared.” The Kistlers’ gift qualifies them for membership in the William Bentley Legacy Society (see article, page 4).



2. Plan Your Charitable Gift to Do Double Duty—Give Appreciated Assets

In most cases, if you give appreciated assets that you have held for more than one year, you can deduct the full fair-market value and avoid capital gain tax.

Example: Karen makes a gift to Allegheny of stock worth \$50,000 purchased seven years ago for \$12,000.

Result: She is allowed a deduction for the stock’s full \$50,000 value, which saves her \$16,500 in her 33% bracket. In addition, Karen avoids \$5,700 in capital gain tax that she would have owed had she sold the stock.

Total savings: \$22,200.

3. Make a Gift, Recoup Your Investment and Save Taxes

In some cases it may be more convenient or beneficial to use a non-cash asset to fund your gift, but you may not want to part with its entire value. One strategy to reach your giving goal is simply to sell the asset to Allegheny at a bargain price.

Example: Frank wants to make a gift of a parcel of undeveloped real estate worth \$300,000 to Allegheny. He sells the land to us for \$100,000 to recover his original investment.

Result: Frank can claim a charitable deduction for the difference between the full fair-market value of the land and the amount he receives in payment (\$300,000 - \$100,000). This \$200,000 deduction saves Frank \$70,000 in his 35% tax bracket.

Frank will have to report a capital gain of \$66,667 (one-third of the \$200,000 gain) and pay capital gain tax of \$10,000. But he will avoid tax on the other two-thirds of his gain, saving \$20,000 in capital gain tax.

There are special rules that apply to certain types of property. Be sure to check with your tax advisor as you plan your year-end giving.

4. Fund Future Gifts with Your “Deduction Chain”

Did you know that it is possible to use the tax savings from your initial gift as your source of funds for future

gifts to Allegheny? You actually can avoid future out-of-pocket costs and increase your giving potential by 50% simply by “regifting” your tax savings.

| Chain Funding a Gift | | |
|----------------------|-----------|------------------|
| Year | Gift | Tax Savings |
| 1 | \$100,000 | \$ 35,000 |
| 2 | \$ 35,000 | \$ 12,250 |
| 3 | \$ 12,250 | \$ 4,288 |
| 4 | \$ 4,288 | \$ 1,500 |
| TOTAL GIFT | | \$151,538 |

For instance, if you make an initial \$100,000 contribution and are in the 35% federal tax bracket, your gift can compound into more than \$150,000 of benefit to Allegheny in just four years.

How? Each year, you simply use the previous year’s tax savings to fund the next year’s gift.

5. Increase Your Cash Flow

With the current low interest rates on traditional investments, you may find that this is a perfect time to consider creative charitable planning strategies that allow you to make a gift, generate a charitable deduction and receive payments based on the value of your contribution.

Collectively these are called life-income gifts. There are various options available to generate income for life; one of the most popular and versatile is the charitable gift annuity.

The amount of income from a gift annuity depends on the amount of the contribution and the age(s) of the beneficiary(ies).

| Benefits of a \$100,000 Charitable Gift Annuity | | | | |
|---|-------|----------------|-----------------|----------------------|
| Beneficiary (One Person) | | | | |
| Age(s) | Rate | Annual Payment | Tax-Free Amount | Charitable Deduction |
| 65 | 5.7% | \$ 5,700 | \$3,289 | \$34,546 |
| 70 | 6.1% | \$ 6,100 | \$3,782 | \$39,880 |
| 75 | 6.7% | \$ 6,700 | \$4,449 | \$44,840 |
| 80 | 7.6% | \$ 7,600 | \$5,358 | \$49,611 |
| 85 | 8.9% | \$ 8,900 | \$6,755 | \$54,085 |
| 90 | 10.5% | \$10,500 | \$8,316 | \$59,254 |
| Beneficiaries (Two People) | | | | |
| 65-65 | 5.4% | \$ 5,400 | \$3,056 | \$23,897 |
| 70-70 | 5.6% | \$ 5,600 | \$3,388 | \$30,518 |
| 75-75 | 6.0% | \$ 6,000 | \$3,888 | \$36,246 |
| 80-80 | 6.6% | \$ 6,600 | \$4,567 | \$42,018 |
| 85-85 | 7.4% | \$ 7,400 | \$5,461 | \$48,135 |
| 90-90 | 8.7% | \$ 8,700 | \$6,716 | \$52,997 |

* Based on 4.2% IRS discount rate (announced monthly)

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Make a Difference Through the William Bentley Legacy Society

The William Bentley Legacy Society is a recognition society for those who have provided for Allegheny College through wills, charitable gift annuities and charitable remainder trusts. Some members have designated the College as a beneficiary of their life insurance or retirement assets.

Members of the William Bentley Legacy Society are recognized in the College's annual *Report of Gifts* and other publications (unless they prefer to remain anonymous). To learn more about the William Bentley Legacy Society, please contact:

Melissa Mencotti
814-332-5912
melissa.mencotti@allegheny.edu

Julianne Weibel Foltz
814-332-2735
julianne.foltz@allegheny.edu



Todd Mauerman '77, a financial advisor with Merrill Lynch's Private Client Group in Fairfield, Conn., and Lisa Pepicelli Youngs '79, an attorney with Pepicelli, Youngs & Youngs PC, of Meadville, Pa., presented a program, Estate Planning 101, hosted by the William Bentley Legacy Society, during Reunion Weekend in late May.

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6. Make a Significant Gift Without Leaving Home

A special tax-law provision gives you a significant deduction for making a gift of your home to Allegheny, yet allows you to continue living there for the rest of your life. You keep what is known as a "life estate" and transfer what is known as the "remainder interest" to us.

A low rate has the effect of driving up the value of the remainder interest, which in turn drives up the amount of your deduction when you make a gift of that interest.

This is a potent planning strategy at any time, but it is even more valuable when the IRS discount rate is low.

Example: *Dave and Sharon, both 72, are entitled to a deduction for 2008*

of more than \$214,000 for a gift of a remainder interest in their \$500,000 home at the prevailing IRS 4.2% discount rate. In their 35% tax bracket, this saves them more than \$75,000. And they are able to remain in their home for the rest of their lives.

Make Your Moves Now

The remaining days of 2008 will pass quickly. We encourage you to get started right away on the year-end strategies that best fit your situation.

Allegheny's gift planning staff is happy to help. You can reach Melissa Mencotti at 814-332-5912 or melissa.mencotti@allegheny.edu and Julianne Weibel Foltz at 814-332-2735 or julianne.foltz@allegheny.edu.

We advise you to seek your own legal and tax advice in connection with gift and planning matters. Allegheny College does not provide legal or tax advice. This communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of avoiding tax-related penalties.