Year End Planning
Counting Blessings and Making an Impact

The end of the year is a flurry of special events and excitement. The holidays are a wonderful time to celebrate with friends and family. The end of the year is also a time when many people remember the charitable causes they hold dear. Annual gifts are very important to the work we do at New York University. However, you may also want to consider making a gift that speaks more of who you are and what you’ve accomplished — a gift with a current and future impact.

In this newsletter, we look at strategies that will help you make a gift with added impact while taking full advantage of the incentives the tax code offers to those who support our mission. There are ways of giving that can allow you to provide for your family and for our organization. One way to get more out of your giving is to coordinate it with your own long-term needs and goals.

Though the financial markets have gradually recovered from the losses endured in 2000-2003, the rough waters have not quite subsided. Interest rates, which had recently reached historic lows, are expected to rise and the result may be to level off the real estate market after several years of robust growth. Financial analysts continue to recommend diversification in an individual portfolio, and many endorse gift planning as an effective tool to rebalance your allocation of stocks, bonds and other investments in a tax-efficient way.

Congress did not enact much tax legislation in the past year, but the successive tax changes in 2001, 2002 and 2003 have had a cumulative effect on the financial planning landscape. By understanding how tax laws affect you, you can better appreciate the tax advantages associated with charitable gifts. And by consulting with your financial advisor, you can be sure of what and how to give to our organization.

If you would like more immediate information about giving and tax planning tips, we invite you to send for our free booklet, the Taxpayer’s Home Companion. Completely updated, it can be a valuable reference tool for you and your financial advisors. Happy reading, and happy planning!

Sam Friedlander’s
Gifts That Give Back

Sam Friedlander, a life-long New Yorker, graduated from the Stern School of Business (then the School of Commerce) in 1938 — and he has never forgotten New York University. Throughout his career as an accountant, he has been a strong supporter of the University, while also supporting other New York charities — social service agencies and hospitals — that have been important to him and to his wife Bertha, who passed away earlier this year.

Sam makes his gifts in a way that benefits his charities and himself as well. At NYU he makes his gifts through the gift annuity program. “The gift annuity is particularly attractive to me because I can make my contributions and at the same time increase my income. In fact, I don’t think I can make all these donations unless I could treat my gifts as an investment for myself as...”

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well. For example, the NYU gift annuity pays me a higher income than I can get from bonds or CDs these days. And there are tax advantages as well — I obtain a large income tax deduction, and my future NYU annuity income will be taxed advantageously. All in all, it’s a great arrangement for NYU and for me.”

Sam says that he learned the importance of philanthropy the hard way — on the receiving end. He sustained a lengthy hospitalization as a young man, and his family could not afford to pay for it. The hospital arranged to provide his medical care free of charge. For this reason, Sam has always given generously — and widely — to social service agencies, hospitals and other providers of health care, and to educational institutions.

And he involves himself closely in the organizations that he supports. In his retirement he spends much of his time as a volunteer, and his kindness, high spirits and keen sense of humor enliven the days of staff members as well as of the people served by those organizations — all of whom he considers friends. Sam views philanthropy as a person-to-person activity. He pays close attention to the people around him, and to their challenges and achievements. When he makes his gifts, he honors individuals, by name, who have added to the quality and achievement of the organizations that he supports, and to the dignity of the people served. At a nursing home, for example, he honors specific volunteers and staff members; at a hospital, he honors physicians who demonstrate high standards of clinical care or extraordinary research results. And in the fourteen gift annuities that Sam has established at NYU over the years, he has honored a wide array of scholars, teachers and volunteer leaders.

Year End Gifts to Consider

Many of our friends make a gift of part of their investment portfolio rather than cash. Often, they will enjoy certain tax benefits from the gift of a particular asset. Here are some of the most tax-advantageous assets you can give before 2004 comes to an end.

Appreciated Stock

Since the financial markets have generally rebounded in the past 18 months, the gift of an appreciated asset is an attractive possibility. If you have stocks, bonds or mutual funds that have appreciated in value, the gain will be subject to tax upon sale. The capital gains tax rate is 15 percent for most assets held longer than one year. Making a gift of appreciated assets to NYU is a good way to avoid capital gains tax. You can usually take the full market value of the asset on the date of the gift as a charitable deduction, which will reduce your income tax if you itemize deductions.

For example: Dan owns 100 shares of XYZ stock worth approximately $12,000. Dan purchased the shares in 1999 for $2,000 and watched the price soar in its first year, though the stock hasn’t done much since that time. If Dan were to sell the stock and pocket the cash, he would have to pay $1,500 in capital gains taxes (gain = $10,000; 15% × $10,000 = $1,500.) If Dan donates his 100 shares of XYZ stock to NYU, he avoids the capital gains tax. Furthermore, Dan enjoys a tax deduction for the full value of the gift: $12,000. Assuming that Dan is in the 35 percent income tax bracket, this results in a tax savings of $4,200.
Considering the combined tax savings in avoiding the capital gains tax and the charitable deduction, the after-tax cost of Dan’s gift of $12,000 of XYZ stock is only $6,300 ($12,000–$1,500–$4,200).

**Bonds**

Many bonds have significantly increased in value due to the prevailing low interest rates. However, rates are likely to increase, which means the fair market value of bonds is likely to decrease. Keep in mind, too, that the interest from taxable bonds will be taxed as ordinary income rather than at the special 15 percent rate for qualified dividends. So, it may be an advantageous time to lighten your holdings in bonds. Consider using some of those bonds to make your charitable gift. A gift of appreciated bonds held long-term will produce a double tax advantage — avoiding capital gains tax while securing a charitable deduction.

**Collectibles, Art and Other Tangible Personal Property**

The 19th century philosopher Thoreau encouraged others to “Simplify, simplify.” You may want to follow this advice and let go of some of the coins, antiques, artworks, etc. that you have enjoyed over the years. Perhaps your interest has faded, or perhaps you haven’t the time or space to devote to your collection. The taxable long-term gain from the sale of collectibles is usually taxed at 28 percent (not 15 percent). However, if you make a gift of the same property, you avoid the high capital gains taxes and secure an income tax deduction. Instead of eBay, consider us. Call us to learn if your gift will qualify for the maximum charitable deduction. You may also need an independent appraisal of the value of the property.

**Mutual Funds**

A gift of mutual fund shares may be another attractive option since the tax on the income from mutual fund transactions became more complicated after recent tax law changes. Qualified dividends that pass through the mutual fund are taxed at the new 15 percent tax rate on dividends; however, most interest continues to be taxed at ordinary income tax rates, which can be as high as 35 percent. A gift of mutual fund shares may be a wise choice since the gift provides all of the advantages of gifts of stocks or bonds.

**Gifts that Give Back**

It may seem strange that a gift to NYU can provide a return to the donor, but it’s true. So called “life-income gifts,” which include gift annuities, offer the financial flexibility many donors need in order to commit a large sum to the University.

Gift annuities have become an especially popular gift method for our donors because of the solutions they provide to all sorts of planning questions. With interest rates hovering at historic lows, an alternative to renewing a CD at a low rate is an NYU charitable gift annuity which will generate a higher annual payout for you. The payout rate on a gift annuity depends on your age on the date of the gift and whether or not you want the income payments to begin immediately or to be deferred to a later date. The income tax deduction for the charitable portion of the transfer may be taken in the year you set up the gift annuity (subject to broad limitations). Also, gift annuity payments receive favorable tax treatment.

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For example: Irene (age 80) owns a $25,000 certificate of deposit. Soon, the CD will mature, and if Irene were to reinvest this money in a comparable CD, she would receive only about a 3 percent return. After discussing options with us, Irene learns that it is possible to contribute the $25,000 to an NYU charitable gift annuity that provides her an 8 percent annual payout, or $2,000 a year. About 2/3 of Irene’s payout will be free of income tax for the first ten years. She also will receive a generous charitable deduction of about $12,135 (at 4.8% AFR) on her income taxes in the current taxable year. Of course, Irene is pleased that her gift annuity will ultimately help NYU and its students — a happy arrangement for everyone!

The charitable gift annuity provides the security of knowing that you will receive an income for life — one that is unchanged by up or down interest rates or shifts in the financial markets. NYU’s promise to pay the annuity is backed by its entire assets, not just the property you transferred.

**Planning Tip for Boomers Approaching Retirement**

If you own an investment (such as a CD or dividend-paying stock) that produces income that you do not need at this point in your life, you may be subjecting that income to unnecessary taxation. With a gift annuity, you can choose to defer your income payments until after retirement so that you avoid the regular taxation on the income at this time. And, when you start receiving the income after your retirement, it is possible that you will be in a lower tax bracket.

A charitable gift annuity is an especially attractive gift vehicle because of the low required contribution (as little as $5,000). Call us to obtain a detailed illustration of how an NYU gift annuity can work for you.

### SAMPLE RATES

**Immediate Gift Annuity**

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**NOTE:** Two-life rates are slightly lower than single-life rates.

### Your Thoughtfulness Counts

Thoughtful planning is the key to more effective giving. As a first step, we invite you to send for the 2004 edition of our *Taxpayer’s Home Companion*. The booklet reviews recent income tax changes and contains many important planning tips. You can request your *Taxpayer’s Home Companion* by sending us the enclosed card. If there is anything we can do to assist you or your professional advisors with your planning, do not hesitate to call us.

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