Planning Ahead: Thoughtful Ways to Close Out 2005

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—events that people will remember for years to come.

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 very well be able to make a big difference in your future as well as NYU’s. Paradoxical as it may sound, a smart planned gift can often be an outstanding way to combine charitable giving and financial well being.

In this issue of Torchlight, 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. That often means making tax-efficient shifts in some of your investments and taking advantage of all the tax deductions available to you.

When it comes to philanthropy, 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.

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,

Alan Shapiro
Director of Gift Planning

David Koehler
Deputy Vice President
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 NYU. 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 University 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, stock 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 these 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

As We Went to Press,

Congress passed a new law that temporarily suspends certain existing limits on the deductibility of cash gifts. This law provides additional incentives for charitable giving, particularly if you believe that you may have been subject to the 50%-of-AGI deduction limit.

This window of opportunity remains open for cash charitable gifts made until December 31, 2005. Consult your tax advisors to learn more, or call the NYU Office of Gift Planning at (212) 998-6960.
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 support the University and its students.

Example: Let’s say you purchased tech stocks in the early 1990s. Despite the hard times suffered a decade later by many dot-com companies, your stock holdings have done rather well—your initial $10,000 investment is now worth $46,000 (though it formerly was as high as $60,000).

By now you may be glad that you purchased the stock, but you may also be somewhat wary of its volatility. You would like to nail down your gain and convert this stock holding into an income stream for life. You will want to consider making a charitable gift of the stock in return for a charitable gift annuity.

In return for your gift, NYU will pay you income every year for the rest of your life. If you are age 64, for example, your NYU gift annuity payout will be $2,760 annually — that is a 6 percent annuity payout. And a part of the annuity income will be tax free until you reach life expectancy, and a part of the annuity income will be taxable at low capital gains rate rather than at the higher ordinary income tax rates. You also will receive a charitable deduction of about $15,575* that you can deduct this year or stretch out over the next five years. The NYU charitable gift annuity features several tax and financial advantages that complement your wish to support the future of NYU.

* 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 a major gift to support the University. It’s another good example of how charitable giving can be used to serve personal financial planning purposes while meeting your philanthropic desires.

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.

A life income gift plan such as a charitable remainder unitrust may provide a sensible way to dispose of the real estate and convert it into an income stream. With this kind of life income gift, your income will be paid at a rate that you specify, based on the value of the trust’s assets as revalued each
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 are just some of the questions that many of our alumni, faculty and friends will ask as they close out 2005. 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.

Lucille Katz Posner’s Annual Giving through Gift Annuities
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says Posner. “What I learned there and the habits of thought I encountered remain valuable to me in everything I do. I still love to participate in activities at the University, and actively continue my learning there.”

NYU’s charitable gift annuity pays Lucille a high and secure income in exchange for her contributions. Much of her NYU annuity income is tax-free, and she obtains a substantial charitable deduction from her gifts. “I have a lifelong connection with NYU, so I want to support the College financially,” says Posner. “I’m delighted that the gift annuity makes it even easier for me to support NYU, because I receive a high income from my contributions. I can certainly use the money to support my travel addiction!”