

Giftwise

Financial and Charitable Strategies for Alumni and Friends of Williams College

America's Tax Code Still Nurtures a Culture of Giving

The United States has long been a nation with a vibrant culture of philanthropy. We give to schools, churches, the arts, hospitals, and aid organizations like no other people on earth. Many of our nation's greatest treasures—The American Red Cross, The Metropolitan Museum of Art, and colleges like Williams—would not exist without our unparalleled generosity.

It is therefore no surprise that American tax policies encourage charitable giving. Recent research by Williams economics professor Jon Bakija—a national expert on the tax code's influence on philanthropy—demonstrates that high-income individuals, in particular, respond positively to tax incentives. He notes that if we think of the “price of giving” a dollar to charity as that dollar minus the value of its tax savings, “our most convincing evidence suggests that a one-percent reduction in the price of giving increases giving by a bit more than one percent, on average.” (Read Professor Bakija's article, co-authored with Bradley T. Heim, in the *National Tax Journal* at <http://bit.ly/Xlh9hb>.)

When the fiscal cliff loomed in the fall of 2012, the future of those charitable incentives seemed uncertain. But the American Taxpayer Relief Act (ATRA), signed into law by President Obama on January 2, 2013, preserves



Jon Bakija, Professor of Economics

them. And Professor Bakija's research suggests that ATRA's higher marginal tax rates on high earners will cause an increase in charitable donations.

An increase from 15 percent to 20 percent in the capital gains tax rate for high earners, for example, will increase the tax benefit for charitable donations of appreciated securities, making it more attractive for some than realizing the gain and paying capital gains tax.

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The Pease Limitation: Too much hype? Learn the facts.

Recent press reports have raised concerns that the resurrection of the “Pease” limitation on federal income-tax itemized deductions will reduce charitable tax incentives for individuals with adjusted gross incomes over \$250,000 (\$300,000 for married couples).

Experts, such as Williams economics professor Jon Bakija, have tried to calm nerves by explaining that “for the majority of taxpayers the Pease limit has *no effect at all* on their incentive to give to charity.” The Pease limit only affects tax savings from donating to charity by *highest-income* donors who live in states with *no* income tax and who *don't* have mortgages or high property taxes. “According to the Urban Brookings Tax Policy Center, only 44,000 (out of some 158 million) taxpayers will have their incentive to give to charity reduced by Pease.” For more information, read this article by the American Enterprise Institute <http://bit.ly/XOJClly>.

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The Office of Gift Planning is grateful for the assistance it receives from its 56 volunteers, led by John W. Buoymaster '74, P'15, National Gift Planning Chairman.



Join The Ephraim Williams Society

The Ephraim Williams Society recognizes alumni, parents, and friends who have demonstrated their commitment to Williams' future by establishing planned gifts or including Williams as a charitable recipient of their bequests. Everyone is welcome to join, at any time. We encourage you to call the Office of Gift Planning if you would like information or assistance as you prepare your own estate plans.

America's Tax Code

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Tax incentives clearly matter, but most charitable gifts begin with a personal connection to a charity and its mission. Alumni, parents, and friends give to Williams to help the college sustain a strong liberal arts tradition, to honor a loved one, or to make sure the very best students, regardless of means, are able to attend Williams and go on to become leaders in their communities.

As you consider your next gift to Williams, we encourage you to speak with your financial advisor and with Williams' Office of Gift Planning to determine how to make the very most of your charitable intentions.

ATRA Brings Greater Savings with Gifts of Stock

A married couple in the 39.6 percent tax bracket who make a charitable gift of long-term appreciated stock worth \$25,000 (with a \$5,000 cost basis) will be eligible to receive a charitable deduction of \$25,000, making the after-tax cost of their gift \$15,100. If the couple were to sell the stock first, then donate the cash proceeds, they would incur a long-term capital gain of \$4,000 (\$25,000 - \$5,000 x 20 percent). In essence, they will avoid \$4,000 in capital gains by giving the appreciated securities directly to charity—\$1,000 more than they would have saved by making an identical gift under prior legislation!

Welcome Back Charitable IRA Rollovers!

A popular way to support Williams—and one of the most eagerly anticipated benefits under the American Taxpayer Relief Act (ATRA)—is the extension of the charitable IRA rollover through 2013, retroactive to 2012. If you are at least 70 ½, the law enables you to give up to \$100,000 per year from your traditional IRA to a qualified charity and not include the amount distributed in your taxable income.

Since the law first passed in 2006, Williams has received over \$8 million in IRA charitable rollover gifts, deemed Qualified Charitable Distributions (QCDs) by the IRS. We hope Congress will pass the law permanently so that our donors, Williams, and other charities will continue to benefit beyond 2013.

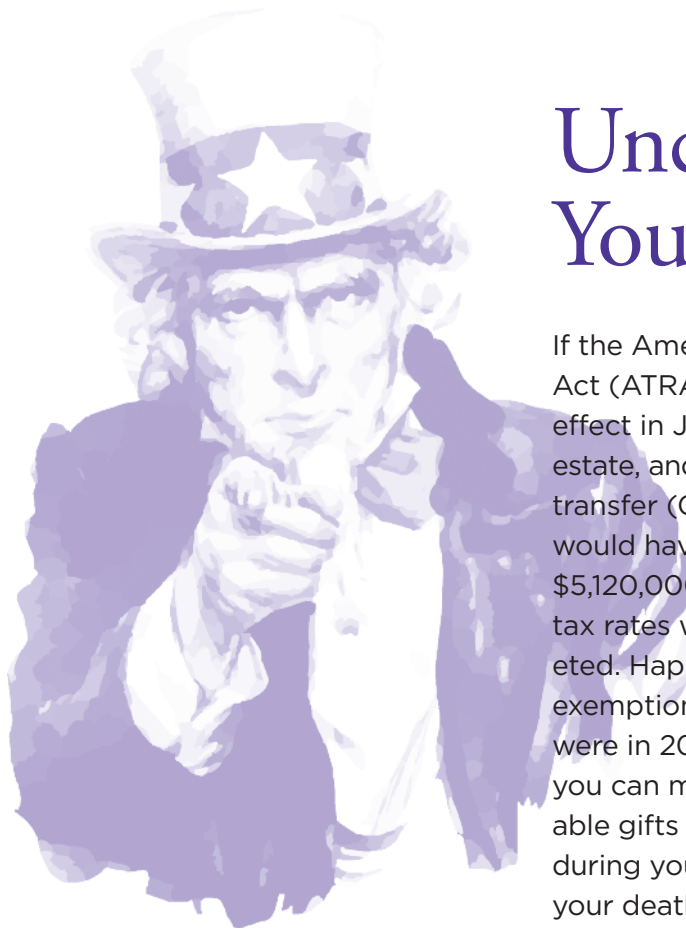
Why make a charitable IRA rollover gift?

- It's a tax savvy way to provide current charitable support.
- It counts towards your annual required minimum distribution.
- You pay no federal income tax on your QCD.
- Your QCD is not included in your adjusted gross income, which may provide you with tax benefits, including lowering your income tax bracket and avoiding certain limitations on exemptions and deductions.
- QCD gifts are quick, direct, and require minimal work on your part.

Be informed before you make your gift. For example, your IRA distribution must be made directly to a qualified charity, and you cannot take a federal income tax charitable deduction for your gift. More information about QCDs—how they work, how to initiate such a gift, and how to report this gift on your federal income tax returns—can be found on our website (giving.williams.edu/gift-planning) or by calling us toll free at (877) 374-7526.

Remember always to consult your own professional advisors regarding gift and planning matters such as making a QCD.

Uncle Sam Now Helps You Give More



“If you’ve been delaying your estate planning until the tax laws were settled, now is a great time to consult your estate and/or financial advisor.”

If the American Taxpayer Relief Act (ATRA) hadn’t gone into effect in January, federal gift, estate, and generation-skipping transfer (GST) tax exemptions would have plunged from \$5,120,000 to \$1,000,000...and tax rates would have skyrocketed. Happily, ATRA keeps exemptions essentially as they were in 2012. This means that you can make otherwise taxable gifts totaling \$5.25 million, during your lifetime and upon your death, before owing *any* federal gift or estate tax at the new rate of 40 percent (up from 35 percent).

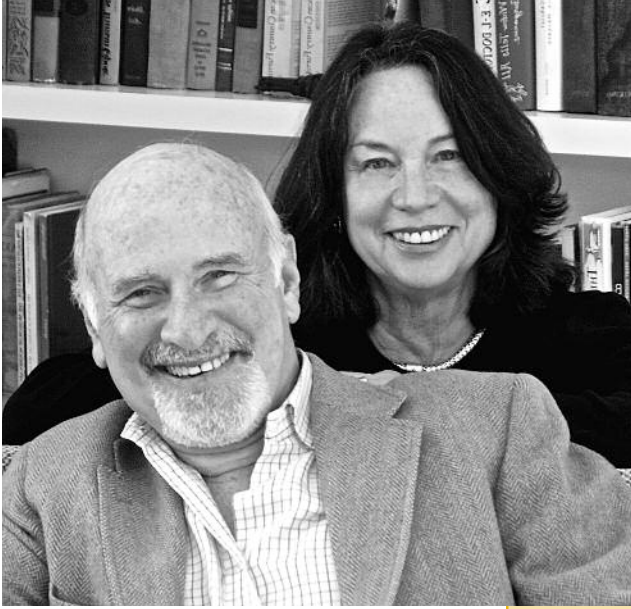
ATRA also restores the two-year provision allowing surviving spouses to apply the decedent’s unused exclusion to their own transfers. For example, if a wife who has made \$1 million in lifetime taxable gifts dies in 2013 and leaves her entire \$12 million estate to her surviving husband, no federal estate taxes are due (because bequests to spouses are tax-free). Her husband can add her \$4.25 million unused estate tax exclusion to his own \$5.25 million, increasing his

available exclusion to \$9.5 million. He can then use this \$9.5 million exclusion for either lifetime gifts or bequests to family and friends. Any charitable gifts the husband makes above and beyond the exemption amount are now more valuable because the higher gift and estate tax rate enhances the value of the charitable deduction.

ATRA’s adoption of high transfer tax exemptions, along with spousal portability of unused exemptions, will result in fewer estates owing any tax. And unlike other recent tax laws, ATRA’s transfer tax provisions do not have a built-in expiration date. If you’ve been delaying your estate planning until the tax laws were settled, now is a great time to consult your estate and/or financial advisor. When you do, please remember Williams, which remains strong, in part, because of the tremendous, broad-based support of its alumni, parents, and friends. We hope more Ephs will consider making a bequest as their final, ultimate gift to the college’s future.

How will the outcome of the Sequestration affect current tax law? We continue to provide updated information on our website (giving.williams.edu/gift-planning).

Profiles in Giving: James B. Blume '63



Jim Blume '63 and Kathryn Frank

“Williams stands for the right things and does the right things.”

For Jim Blume, giving to Williams is a matter of the heart. “In general it’s hard for me to get excited about supporting an institution of any kind, but Williams is an amazing collection of people who’ve significantly enriched my life.”

Those people range from his former professors, James MacGregor Burns '39 and Warren Ilchman, to his late classmate Tom Frank, whose sister Kathryn is Jim’s wife. They also include dozens of fellow students he met as Kappa Alpha president, Purple Key secretary, *Gul* business manager, Junior Advisor, as a member of Gargoyle and the

Civil Rights Committee, and as class president. And he’s continued to nourish his extended Williams family as class secretary, associate agent, and on the 50th Reunion Fund Committee.

Jim also learned early on that “Williams stands for the right things and does the right things.” He came to believe in Williams’ values when, as president of the Intrafraternity Council, he worked with and admired people like President Jack Sawyer '39 and trustee Talcott Banks '28 through the challenges of phasing out fraternities.

An accomplished investment manager who graduated from Harvard Business School, Jim also has a doctorate in psychology, so his understanding of philanthropy spans the practical as well as the emotional. “Making my own 50th Reunion gift through a combination of outright and charitable remainder unitrust gifts helps me do what I want to do for Williams, while at the same time creating an income stream that helps secure future support for my wife, Kathryn.”

While the benefits of making a life-income gift are clear, Jim says the charitable impulse comes first: “I have a deeply held philosophy engendered by my father that I’ve been fortunate, and it is critically important to me to give back.”

