Minimize Taxes by Giving "Tax-Embedded" Assets

It is powerful to use "tax-embedded" assets – *those with a unique taxable nature* – for charitable gifts to maximize giving to loved ones *and* charity while minimizing taxes. We recommend 2 types for charitable giving!

1) **Appreciated Assets** have *increased* in value since being acquired.
   - *Examples*: real estate, stocks/securities, and business interests.
   - The original value is ***basis***, and the increase in value is ***gain***.
   - Capital gains taxes are due on the gain when the asset is sold:
     - Long-term capital gains (property held over a year) rates are generally 15 to 20%, and short-term capital gains are taxed at one's income tax rate.

2) **Traditional (non-Roth) Retirement Assets** are *tax-deferred* and have not yet been taxed.
   - The pre-tax money grows tax-free within a retirement account, providing for more significant growth than in a taxable account.
   - Withdrawals are taxed at the recipient's tax rate (either the owner or inheritor).

Charities like Wheaton receive tax-embedded assets without incurring tax, unlike individuals who will be taxed when they receive them. If you want to include loved ones *and* charity in your estate, consider using tax-embedded assets for charitable gifts and other assets for loved ones.

Example: Dan wants his $2M estate to benefit his son Sam and his alma mater, Wheaton. He has a $1M house, $500K in bank accounts, and a $500K traditional IRA. By swapping the asset going to charity, about $125K is re-directed away from taxes, and to Sam!

- **Scenario 1**: Dan directs the $500K IRA to Sam, and $500K gift from his Will (estate) to Wheaton, and the $1M remainder to Sam. When Sam withdraws the IRA assets he inherits, he will incur tax. Assuming a flat 25% tax rate, Sam receives a net of $375K from the IRA, while $125K goes to taxes. Wheaton receives $500K from the estate, and Sam receives the remainder ($1M), for a total of $1,375,000 to Sam.

- **Scenario 2**: Dan directs the $500K IRA to Wheaton and the entire estate via Will to Sam, which has a much better result for Sam. Sam receives $1.5M from the estate (house and bank accounts), and Wheaton receives the full $500K from the IRA. Sam receives $125K more inheritance because Dan switched the gifts, directing tax-deferred retirement assets to charity – a simple change with powerful results!

A Simple Change Provides More for Loved Ones *and* Charity!

WHEATON COLLEGE
For Christ & His Kingdom

Wheaton College Gift Planning Services

Scenario 1

- $500K traditional IRA to son Sam
- $500K to Wheaton College via Will (estate) with $1M remainder of estate to Sam

Result

- From traditional IRA, estimated 25% tax rate = $125K income tax. Sam nets $375K.
- From estate, Wheaton College receives $500K, and Sam receives $1M.

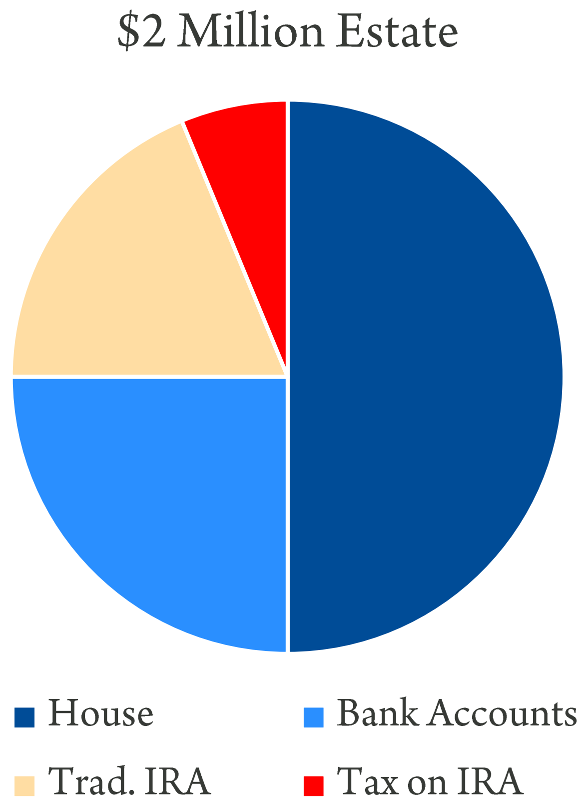
** Inherited tax-deferred retirement assets are taxable. Typically, other inherited assets have no income tax liability.*

TOTALS

$1,375,000 to Sam

$500,000 to Wheaton College

$125,000 to taxes



Scenario 2

$500K traditional IRA to Wheaton College

$1.5M to Sam via Will (estate)

Result

- From traditional IRA, no tax liability. Wheaton College receives $500K.
- From estate, Sam receives $1.5. No income tax liability on non-retirement assets.

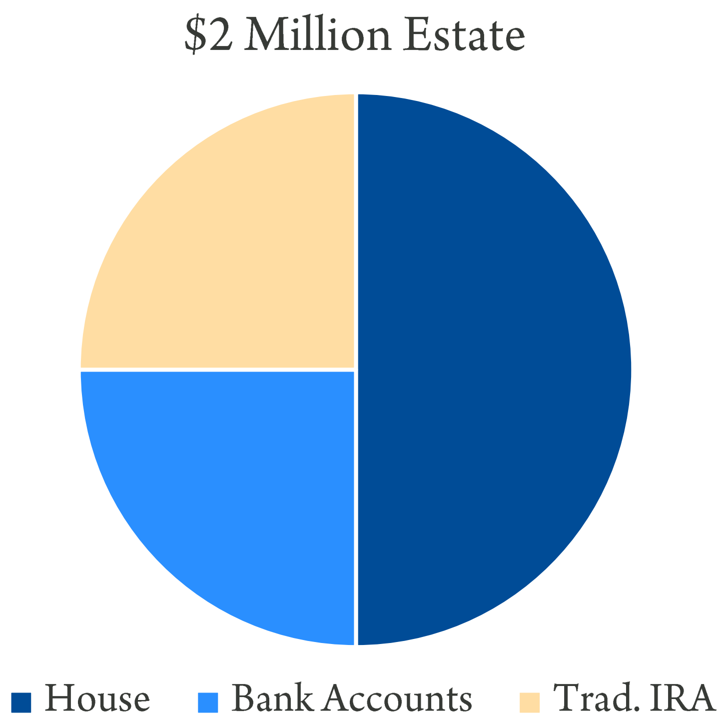
TOTALS

$1,500,000 to Sam

$500,000 to Wheaton College

$0 to taxes

$125,000 in tax savings in Scenario 2!



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