Year-end Planning to Benefit You and Hamilton

Dear Alumni, Parents and Friends,

You have worked hard all year to accomplish personal, family and charitable objectives. The decisions you make in the final months of 2004 will allow you to maximize the benefit to you, your family and Hamilton.

This Hamilton Plans highlights some of the more important issues that affect your year-end planning. Of course, the strategies that are right for you depend on your personal circumstances.

Some years ago with help from the College and our attorney, Patsy and I established a planned gift to which we have made annual additions. Now, in the waning months of 2004, this may be a good time to review the creative charitable gift plans included in this newsletter that might help you achieve your objectives. These ideas just scratch the surface of the options available. To learn more about end-of-year strategies, request a copy of our booklet, Top Ten Year-End Tax Planning Questions and Answers, by returning the reply card or contacting Ben Madonia ’74 at the College at 866-729-0317.

Sincerely,
Dick Couper ’44
Life Trustee
**Special Incentives**

Federal tax law encourages taxpayers to use their resources to produce certain kinds of income. On the favored list are long-term capital gains and qualified corporate dividends, generally taxed at a maximum rate of just 15% for those in the top brackets.

Specific holding periods must be met to qualify for this dividend tax rate. For common stock, shareholders must own the stock for more than 60 days during the 120-day period beginning 60 days prior to the ex-dividend date. The holding period for preferred stock is longer.

In addition to striving for lower tax rates, you should be cognizant of the timing of a sale so you can control when you have to report capital gain. However, if you sell stocks that have gone down since you bought them, you can use that loss to offset other gain, or up to $3,000 of ordinary income if your total loss exceeds your gain. (Note: If you buy back stocks within 30 days, you will not be able to recognize the loss.)

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**Wise Planning… Taking Advantage of Deductions**

One of the major objectives of year-end planning is to keep as much income as possible from being subject to income tax. Astute use of tax deductions can reduce your taxable income, leaving you with more after-tax cash. Deductible expenditures include:

- **Taxes.** State and local income taxes, real estate taxes and some personal property taxes can reduce your taxable income.

- **Mortgage interest.** Interest paid on a residence typically is deductible, unlike consumer interest such as car loans and credit card interest.

- **Medical expenses.** You can deduct unreimbursed medical expenses that exceed 7.5% of your adjusted gross income.

- **Retirement plan contributions.** The amount you put into retirement plans reduces your taxable income (subject to certain limits).

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**Begin a Roth IRA for Your Child or Grandchild**

When it comes to saving for the future — to purchase a home, for educational expenses or retirement — time is a crucial variable. For those who are able to look beyond immediate needs, contributing to a Roth IRA for your child or grandchild is a powerful way to help that child on his or her way to financial security. For any child or grandchild who is gainfully employed, if $3,000 is contributed to a Roth IRA each year between the ages of 15 and 20 and the Roth IRA earns 8% per year, the child will have more than $650,000 when he or she is 65, even if no other additions are made. And the money will be 100% tax-free.

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**The Charitable Deduction: A Powerful Planning Tool**

Wisely and creatively used, charitable deductions can improve your financial position. When you choose to support charitable causes such as Hamilton, the government shares the cost in the form of tax savings. The following chart shows the net cost of giving for persons who itemize (the savings could be greater when state taxes are considered).

<table>
<thead>
<tr>
<th>Net Cost of a $1,000 Gift</th>
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</thead>
<tbody>
<tr>
<td><strong>Tax bracket</strong></td>
</tr>
<tr>
<td>25%</td>
</tr>
<tr>
<td>28%</td>
</tr>
<tr>
<td>33%</td>
</tr>
<tr>
<td>35%</td>
</tr>
</tbody>
</table>

Choosing the right asset to give can make the results even better. For instance, if you give highly appreciated stock (held long term), you can take a deduction for the full market value and you do not have to recognize any of your paper gain. The following chart shows a comparison of a gift of $50,000 worth of stock, purchased for $10,000, with a gift of $50,000 cash for a person in the 35% tax bracket.

<table>
<thead>
<tr>
<th>Stock</th>
<th>Cash</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deduction</td>
<td>Stock</td>
</tr>
<tr>
<td>Tax savings</td>
<td>Cash</td>
</tr>
<tr>
<td>Long-term capital gain</td>
<td>none</td>
</tr>
<tr>
<td>Capital gains tax avoided</td>
<td>none</td>
</tr>
<tr>
<td>Total tax savings</td>
<td>$23,500</td>
</tr>
<tr>
<td>Net cost of gift</td>
<td>$26,500</td>
</tr>
</tbody>
</table>
Life Payment Strategies

Supplemental Retirement Income from a Special Unitrust.
Retirement security is a high priority. While there are tax-advantaged ways to put aside money for retirement, many people would like to do more and generate tax savings at the same time.

If you have significant charitable goals, you may benefit from a plan that lets you increase your retirement security and make generous provisions for Hamilton. For example:

Joanne, 50, is a successful professional who has exhausted all traditional tax-advantaged retirement savings options. She would like to do something significant for the College and augment her retirement income as well.

Planning to retire at age 65, Joanne contributes $100,000 to a special kind of charitable unitrust designed to provide income to her at the time of her retirement and continuing for the remainder of her life. She enjoys income tax savings now and the benefit of tax-free trust asset growth. When payments begin, she will receive 5% of the trust’s annual value and, at her death, the funds remaining in the trust will become a part of Hamilton’s endowment with the income used according to her wishes in perpetuity.

Lifetime Payments from a Charitable Gift Annuity.
One of the simplest and most popular ways to enjoy the satisfaction of a gift, benefit from an immediate income tax deduction and receive payments for life is through a charitable gift annuity.

In exchange for your contribution of cash or marketable securities, Hamilton will make annual payments to you for your lifetime (or to you and a successor annuitant you designate). The amount of the charitable deduction and the fixed payments depends on the number and age(s) of the beneficiary(ies).

In today’s low interest rate environment, gift annuity payments may be an attractive alternative to CDs or other income-producing investments.

Hans Solmssen ’59
Hans and Sally Solmssen decided to consult a financial planner for retirement and financial planning advice. “Everyone’s situation is different. We found ourselves with a stock portfolio that had a very low cost basis. After meeting with our financial advisor, it became clear that establishing a charitable remainder unitrust would provide many advantages in terms of income and capital gains tax savings,” Hans said. In addition, the Solmssens receive quarterly income distributions. “Having that consistent cash flow in our retirement is especially desirable.” Above all, there was the added incentive of being able to do something significant for Hamilton. “The unitrust,” Hans said, “has allowed us the opportunity to make a much larger gift than we ever thought possible.”

Hans and Sally completed the unitrust this past year and the remainder value will establish The Solmssen Family Scholarship. The couple has involved their sons who graduated from Hamilton, Christopher “Topher,” Class of 1990, and Andrew, Class of 1994, in the particulars of the scholarship. Their wise financial planning will leave a family legacy that will benefit Hamilton students in perpetuity.
Send for More Year-End Tax Planning Strategies

This issue of Hamilton Plans has provided some general information about year-end strategies. To learn more, you are invited to request a complimentary copy of our booklet, Top Ten Year-End Tax Planning Questions and Answers, by returning the reply card or contacting Ben Madonia ’74 at 866-729-0317 or bmadonia@hamilton.edu.

For more information about other planned gifts, please go to www.hamilton.edu/alumni/plannedgiving

Joel Bristol Associates of Hamilton College

Hamilton honors planned gift donors or anyone who has made an estate plan provision in favor of the College with membership in the Joel Bristol Associates. Please advise the College if you have included Hamilton in your estate plan or completed a planned gift so you may be recognized as a Joel Bristol Associate.

Jeff Hewitt ’74 and John Root ’44 at the 2004 Joel Bristol Associates breakfast.