

Solutions

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GEORGE FOX
UNIVERSITY

*a matter of mind
and spirit*

REAL ESTATE

IT MAY BE TIME FOR YOUR PROPERTY TO WORK FOR YOU

Real estate is a key asset of the portfolios of many prudent investors. Even smaller investors have used the unique benefits of real estate to increase their own net worth. Investing in real estate offers such benefits as:

- *Leverage*, which allows investors to finance real estate investments largely with “other people’s money.”
- *Preferential treatment* under federal tax laws—for example, the allowance of depreciation on investment property or the sheltering from tax on a certain amount of gain from the sale of a personal residence.
- *Favorable rates of return* for income-producing real estate.
- The potential for a *healthy rate of growth* of capital investment.

Real Estate as an Investment

Whether a personal residence, a vacation home, a farm, rental income property, or commercial property, real estate represents a significant percentage of most people’s assets. Although subject to fluctuations, real estate generally has increased in value over time.

Real estate remains, however, an illiquid asset. Another problem the real estate owner faces is the capital gains tax that may be due upon the disposition of highly appreciated real estate—especially investment real estate, which (unlike one’s personal residence) does not qualify for the exclusion from capital gains tax. This tax can have an especially negative effect on individuals who are

relying on real estate proceeds to provide income after retirement.

Charitable planning tools can reduce taxes and provide additional income.

You have undoubtedly exercised great care in the management of your property; now you may be able to take advantage of charitable planning opportunities to be a steward of the increased value of your property.

An Excellent Choice for an Outright Gift

You get a double tax benefit when you give appreciated real estate you've held long-term. You can deduct the *full present market value*, and you avoid the tax on the appreciation.

You can use the deduction up to 30% of your adjusted gross income in the year of the gift—with a five-year carryover for any excess value of your gift over this ceiling.

Part Gift/Part Sale—the Bargain Sale

Gift possibilities involving real estate are not limited to outright gifts. A *bargain sale* can provide you with needed cash while enabling you to support the work of George Fox University in preparing Christian leaders for world-wide service.

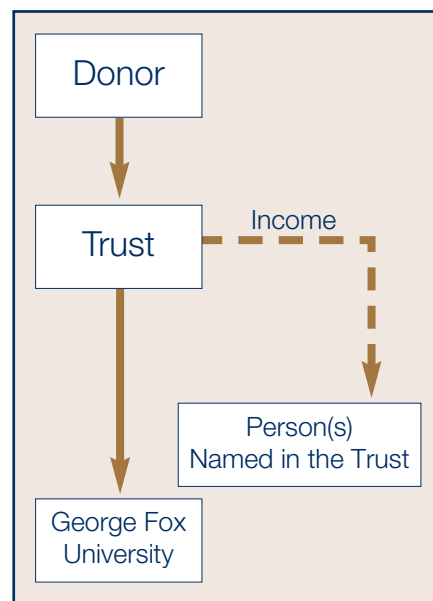
In a bargain sale, the charitable organization (George Fox) agrees to pay an amount less than the fair-market value for the property. The donor receives cash and a charitable deduction—the difference between the sale price and the fair-market value. Some capital gain may need to be reported by the donor.

Example: Sid and Betty own some undeveloped property that was purchased several years ago for \$30,000; it is now worth \$200,000. They would like to make a gift in support of the nursing program at George Fox, but don't feel they can part with the entire \$200,000. Sid and Betty can sell their property to the university for \$80,000. Their charitable deduction will be \$120,000. They also will have to report a gain from the sale of \$68,000. Assuming they pay 15% capital gains tax (+9% in Oregon), they will owe \$16,320, but because of the charitable deduction, they are still ahead.

Increasing Your Income with a Charitable Trust

For those who would like to make a significant gift to charity, but need income to meet personal or family objectives, a charitable remainder trust may make good sense.

A charitable remainder trust is a highly flexible vehicle that can be adapted to a variety of personal financial goals. A donor transfers property irrevocably to a trust and specifies: 1) the amount of the



income to be distributed; 2) the beneficiary(ies) who will receive the income payments; 3) the duration of the payments, a period of years or the lifetime of the beneficiary(ies); and 4) the charity that will receive the remainder.

A charitable remainder unitrust applies a percentage to the value of the trust assets as determined each year to determine the annual payout to the beneficiary. If the value of the trust assets increases from year-to-year, the trust payout also will increase.

A donor who establishes a charitable remainder trust receives a charitable income tax deduction in the year the trust is created. The amount of the deduction depends on many factors, including the value of the assets funding the trust, the age(s) and number of the beneficiaries, or the length of the fixed term, and the selected payout rate.

Example: Harry Brown, 68, purchased acreage in an urban growth area many years ago. He transfers these 15 acres of undeveloped property to a unitrust and selects a 6% payout rate. Although he paid only \$70,000 for the property, it is now worth \$400,000. As trustee of the trust, George Fox University sells the property and the trust realizes net proceeds equal to the full appraised value of \$400,000.

Harry receives an immediate income tax deduction of \$181,288 and, given his 28% tax bracket, saves \$50,760 (28% of \$181,288) in taxes over the period it takes him to use the deduction. He also avoids paying tax on the capital gain. His income for the year following the sale will be \$24,000. Previously, he was receiving no income from the property.

Thereafter, the annual payment will equal 6% of the annual value of the unitrust. At his passing, the remaining assets will fund an endowed scholarship for students of the School of Education at George Fox.

With wise charitable planning, you can transform real estate holdings that generate little or no income into a source of annual payments—without selling and generating taxable capital gain.

Maintain the Income Stream from Rental Property

Many people use rental housing and income-producing property to generate additional income. Using sweat equity, it is often easy to purchase rental property and

increase its value over time. After many years, you may have used the “1031 exchange process” to upgrade your properties and acquire more income-producing units. At some point in time the thrill of being a landlord may lose its luster. To sell those income-producing properties would result in a significant capital gains tax penalty.

A charitable remainder unitrust may be just the vehicle to maintain or increase the income stream coming from those income-producing properties and escape the capital gains tax that would be due upon the sale.

Make a Gift & Retain Possession

Your home could be your best investment, particularly if you have lived in it for a long time. The bad news is you can do very little with that equity unless you sell your home and move.

Give your home—and continue to live there.

By working in partnership with George Fox University, you can unlock the earning power of your home equity.

Example: Jack and Esther have lived in the same home for 30 years. They are happy and fully intend to remain there for the rest of their lives. At age 77, they are enjoying their retirement years. They have no children and intend for their home, now valued at \$350,000, ultimately

to be used to benefit the Center for Peace and Justice affiliated with George Fox University.

Solution 1: Jack and Esther could give their home to George Fox now, but retain what is called a life estate. This gives them the right to live in their home and use the property as long as they live. Their lifestyle does not change in the least, and they receive an immediate income tax deduction for a portion of the home’s value. At age 77, that deduction is approximately \$142,770.

Solution 2: In some cases, George Fox might consider giving a donor an income in exchange for the value of the remainder interest in the residence. In the scenario of Jack and Esther, the university could pay them an annuity of \$9,280 (6.5% of \$142,770) each year for the rest of their lives. Since this reduces the value of the university’s interest, their income tax deduction is also reduced to \$60,880. A George Fox publication, “*There’s No Place Like Home*,” explains the concept of a life-estate agreement in combination with a gift annuity.

Flexibility & Creative Problem Solving are the Keys

For more information on these planning techniques, return the attached card and we will send you helpful booklets with more information.

STILL LEARNING & ASSISTING STUDENTS TOO

Though 90, Jane McNally is still on a quest for knowledge. The Friendsview Retirement Community resident was the first woman to enroll in the graduate theology department at Wheaton College in the 1940s, and her desire to learn motivates her to audit classes at George Fox today.



Jane's inquisitive nature led to her conversion to Christ as a teenager. Raised in the Christian Science Church, she began to question her childhood faith after her mother died and her father married a Christian woman. Moved by the love of evangelical Christians, she gave her heart to Christ and embarked on a 40-year journey as a missionary in India.

Upon her return to the U.S., Jane wanted to live near a Christian college so she could take classes and attend campus events. She also wanted to assist young people. To do so, she established two charitable gift annuities with George Fox University that will provide her with a fixed income and ultimately benefit the university for years to come.

Annuity rates depend on the age and number of beneficiaries, and for a period of years, a portion of the annuity payment is tax-free. Jane's gift annuity payout rate is 11.3%. A donor can establish a gift annuity for as little as \$5,000.

"I'm so grateful to George Fox and I wanted to do anything I could to strengthen the school," Jane says. "This way, I'm doing something tangible."

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WE ARE HERE TO HELP

Effective charitable planning can be the key to meeting your needs. You may find these planning strategies helpful as you make decisions that affect your life and reflect your values.

George Fox University offers various life-income gift plans that offer significant advantages to the donor. Charitable trusts, gift annuities, life-estate agreements, and other planning instruments are available.

For more information, please contact:

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 Office of Estate and Charitable Planning

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More information is available online at
www.epg.georgefox.edu



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Please send me a complimentary copy of the following:

- How to Realize Maximum Benefits from Your Real Estate.
- Planning Opportunities with Real Estate.
- There's No Place Like Home—the Life Estate/Gift Annuity Concept.
- Contact me about year-end income and tax-planning assistance.
- We have included George Fox University in our estate plan and would like to be a part of the Henry Mills Society.
- We would like information on how to include George Fox University in our estate plan.

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Solutions

INTRODUCING SOLUTIONS

The financial challenges facing people today are daunting. People approaching retirement are wondering about how to generate a secure retirement income. Retired folks are struggling to cope with higher prices.



Al Zimmerman, CFRE, CSPG

Those with appreciated assets may need to convert those assets to an income stream, but face the burden of taxes. These are not easy decisions; however, they affect us deeply.

We know that our Lord is concerned about every area of our lives, including our financial decisions and life choices. He has

entrusted to us time, treasures, and talents for which we are stewards. He knows our needs—even before we ask. During the earthly ministry of Jesus, he talked more about money and decision-making than almost any other topic.

Solutions is focused on the estate and charitable options that can help meet the needs of you and your family. We trust that you will find each issue of *Solutions* helpful.

Al Zimmerman recently joined George Fox University as director of planned giving. Zimmerman was vice president for planned giving for the Oregon Health & Science University Foundation for more than 12 years. He has also been the executive director of the Samaritan North Lincoln Hospital Foundation in Lincoln City and a development officer with Warner Pacific College.

Zimmerman is recognized as a Certified Fund Raising Executive, and holds a designation as a Certified Specialist in Planned Giving.

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PREPARING LEADERS FOR CHANGING COMMUNITIES

Urban Portland is a place of cultural and economic diversity in need of new generations of committed, visionary leaders who will build bridges across differences and respond creatively to the pressing changes in our communities.



Joel Perez

In launching Act Six, a scholarship and leadership program, George Fox is striving to prepare these emerging leaders and to provide a more diverse environment on its campus.

“As believers, we feel we are called to understand and celebrate the diversity that God has created,” says Brad Lau, vice president for Student Life.

Beginning in the fall of 2007, the Act Six initiative will provide full-ride scholarships to a multi-cultural group of about 10 students from urban Portland high schools each year. Joel Perez, director of Act Six at the university, will help the scholars plug into campus life and provide mentoring and leadership development.

Perez comes to his new position with firsthand experience as an ethnic student on a predominately white campus. When he began college at Biola University, he learned to become a bridge-builder between the primary culture and ethnic groups on campus.

Portland Central Young Life, a partner in the program, will help select the scholars and provide training. Like George Fox, the nonprofit organization is committed to introducing young people to God and helping them grow in their faith.

Tax Free IRA Charitable Rollover Becomes Law

Charitably minded individuals can now make charitable gifts from their IRAs and exclude the amount of their gifts from gross income.

- The donor must be 70^{1/2} years of age or older.
- The transfer must go directly from the IRA to George Fox or other charity.
- The gift cannot exceed \$100,000 per taxpayer per year.
- It must be an outright gift.*

* Transfers to donor advised funds, supporting organizations, charitable remainder trusts and for charitable gift annuities do not qualify.

This opportunity is available for 2006 and 2007 and no charitable deduction is allowed.

Prior to passage of this act, if a donor withdrew \$50,000 from an IRA and contributed it to charity, the \$50,000 would have been included in the donor's income. However, the donor would have also been allowed a federal income tax charitable deduction to offset the reported additional income.



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