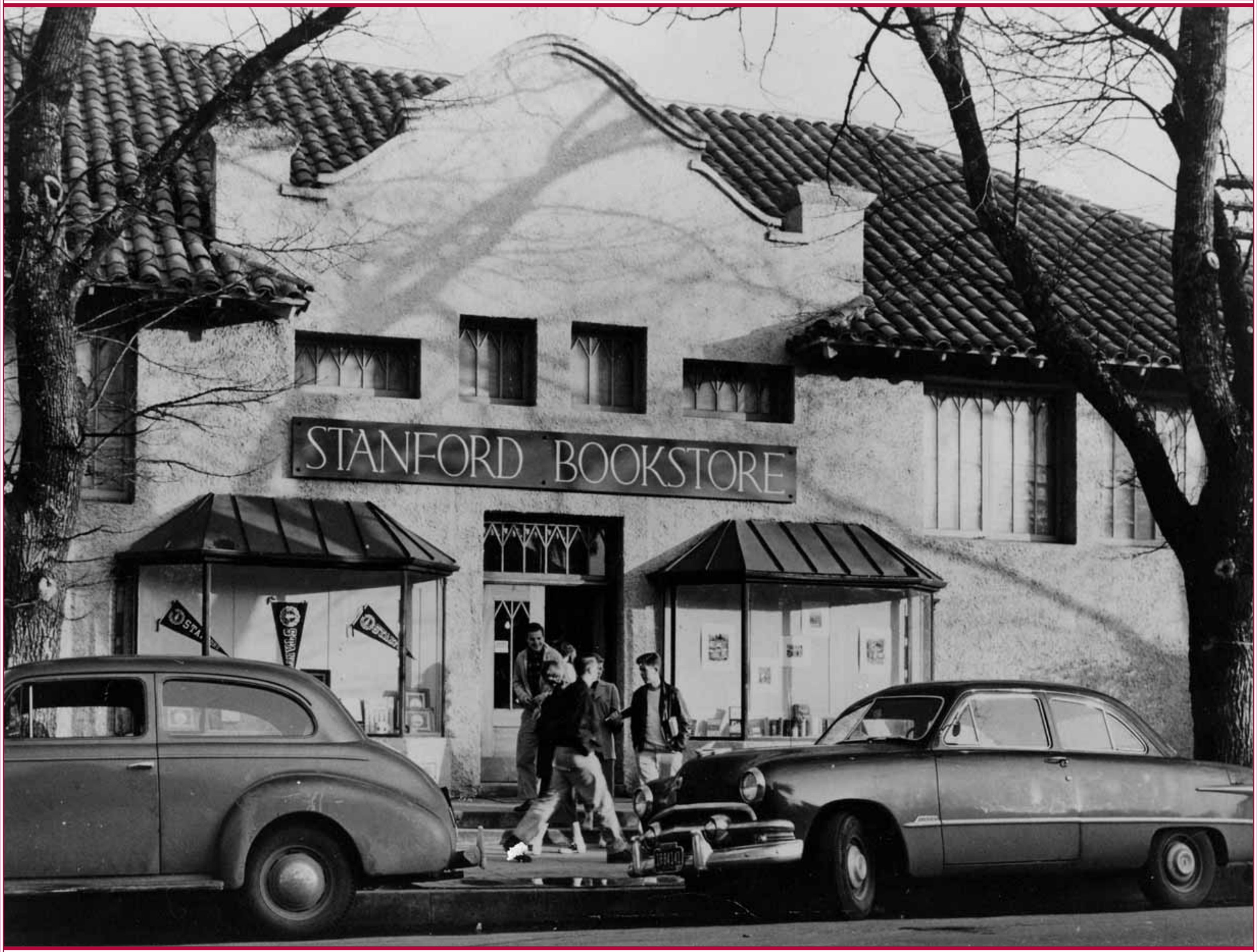
CHARITABLE ESTATE PLANNING & TAX TIPS

FALL/WINTER 2005

REMEMBER STANFORD

Creating a Legacy



Stanford Bookstore as it appeared in the 1940s. Today, the bookstore is housed on White Plaza. The original building, constructed in 1913, served as the Stanford Bookstore until 1960 and was once home to Sticky Wilson's, a candy store, and Green's, a sandwich shop. The site was used as a career advising center from 1967–2001 and will reopen its doors in fall 2006 as the Barnum Family Center for School and Community Partnerships in the School of Education.

REAL ESTATE MAKES A REAL DIFFERENCE AT STANFORD

"Someone you really admire can change your life," says Bill Alhouse, M.Ed. '51. For Bill, that person was the U.C. Santa Barbara professor who convinced him to apply to Stanford's School of Education.

"He said, 'Bill, I want you to go to Stanford,'" Bill recalls. "Being from Brooklyn, I thought, oh, boy, that's a hard school to get into!" But he did apply—after the professor drove him up to Stanford to visit the campus. In 1951, Bill, a gifted baseball player who had attended U.C. Santa Barbara following his naval service, graduated from Stanford with a master's degree in education—and a job as an assistant baseball coach at the university.

"I coached at Stanford for 17 years," he says. "That's one of my fondest memories." He credits his Santa Barbara professor with giving him the skills and confidence necessary to make it to Stanford as a graduate student and then as a coach. His time at the Farm has been equally important to him, preparing him well for a lifetime of coaching and teaching on the baseball field and a successful career in real estate.

"I've always thought that Stanford was a big part of my life," Bill says, reflecting on why he chose to make a real estate gift to the university. "I've had such admiration for Stanford from the day I came here. It's a marvelous institution."

In 1993, Bill and his wife, Barbara, established two charitable remainder unitrusts at Stanford using their acreage in Los Altos Hills. The trusts will eventually establish an endowed athletic scholarship for Stanford's baseball team and provide general support to the Hoover Institution. In the meantime, one trust provides a steady income for Bill and his wife.

As someone who has spent decades immersed in the real estate profession, making a gift of property made sense to Bill Alhouse. However, one need not be a real estate expert to make a gift of property that benefits Stanford and the donor. Real estate carries a wide range of options for charitable giving, and Stanford is fortunate to have a tradition of generous donors who have explored many of these possibilities.

OUTRIGHT GIFTS

One option for giving real estate is an outright gift of either a full or a partial interest in real property. A personal residence, rental property, commercial property, or undeveloped land makes an excellent candidate for an outright gift. Norma and Bob Street, M.S. '57, Ph.D. '63, made an outright gift of their vacation home, a condominium in Pajaro Dunes, California. An emeritus professor and former dean of the School of Engineering, Bob and his

Assistant Coach Bill Alhouse, circa 1960

wife established a fund to support research in environmental fluid mechanics at Stanford, an area about which they care deeply.

The university usually sells real estate that it is given. Should the gift be a partial interest in property, the donor and Stanford become co-owners until they jointly sell the property, which the university prefers to do within a short time (preferably, a year). In either case, the donor may claim an income tax deduction based on the appraised value of the gift to Stanford, rather than the eventual sale price.

Stanford has also received many gifts of real property through donors' estate plans. History Professor John J. Johnson and his wife, Maurine, wanted to leave their condominium, located on Stanford's campus, to the university at the time of the survivor's death. They worked with the Office of Planned Giving to arrange a gift of a remainder interest in their home while retaining a lifetime interest. This allowed them to claim an immediate charitable income tax deduction. Prior to Professor Johnson's death, he gifted his remaining life interest to Stanford. When the property was sold by the university in March 2003, the proceeds created the John J. and Maurine Amstutz Johnson Fellowship in History. Today, that gift is helping students investigate the history of Latin America, the field to which Professor Johnson devoted his career.

INCOME FOR STANFORD—AND DONORS

Like the Alhouses, many donors have gifted real property to establish a charitable remainder unitrust at Stanford, which provides them an income stream for life and eventually becomes a gift to the university. In this case, Stanford as trustee sells the property and invest the proceeds, which then generate an annual payout for the donor. As with an outright gift, the donor receives a charitable tax deduction at the time he or she establishes the trust, and there is no capital gains tax when Stanford sells the property.

Larry, '54, and Amber Henninger, '55, chose this strategy when they decided to move to the Classic Residence by Hyatt, a senior living community located near Stanford Shopping Center. They wanted to make a gift to Stanford while saving on taxes and retaining a stream of income for the rest of their lives. The couple put their Palo Alto residence into a Stanford unitrust. The home was sold by the university and the entire net proceeds invested for their benefit. The gift is particularly meaningful for Amber, who is a dedicated volunteer for her class's

50th reunion. Ultimately, part of the Henningers' gift will be added to their existing endowed athletic scholarship fund and part will be used to establish a new fund at the Hoover Institution to support its "Voices of History" program.

> Emily and I are pleased to be able to contribute to Stanford, which has been a significant part of our family history.
> — Robert Haffner, '47

Emily, '44, and Robert Haffner, '47, M.S. '49, also created a charitable remainder trust at Stanford, but they did so using a vacation property, a good option for those with a secondary property they no longer wish to manage. The Haffners gave their property in Coeur d'Alene, Idaho, to the university in 2002. Proceeds from the sale are now producing a monthly income for the couple through a unitrust. When the trust matures, the remaining proceeds will create an unrestricted endowed fund at Stanford in their names.

"Emily and I are pleased to be able to contribute to Stanford, which has been a significant part of our family history," says Bob. The couple's children Nancy and Kinsey are also Stanford alumni, and Emily has served as a class correspondent for many years.

For those who wish to receive some cash for their home or other property but also want to make a gift to Stanford right away, a bargain sale can be an attractive option. When Anne O'Neil Dauer, '60, and Art Dauer, '58, decided to sell their Menlo Park, California, home and move to a retirement community, they also decided to make a gift to Stanford as part of their transition. The Dauers entered into a bargain sale arrangement with Stanford by selling their home to the university for an amount substantially less than its fair market value. The difference between the university's purchase price and the appraised value of the home constituted a tax-deductible gift to Stanford. The couple specified that, upon Stanford's sale of the house, the net gift proceeds would be allocated among the Hoover Institution, the Department of Athletics, the Cantor Arts Center, and The Stanford Fund for Undergraduate Education. The Dauers' gift caps an exceptional record of service to their alma mater. Art, who passed away recently, served on the Stanford Athletic Board, volunteered for many years fundraising for the School of Engineering, and was a member of the Board of Overseers and vice chairman of the Library and Archives

The Stanford family home in Sacramento, California, circa 1870. The home, which has been recently renovated, was the site of the Founding Grant Society's "Stanford Gathering" on November 9. See the back cover for more details.

Committee at the Hoover Institution. Anne is a past chair of the Cardinal Club board, a longtime volunteer and docent for the Cantor Arts Center, and currently a co-chair for her 45th class reunion.

Stanford is extremely fortunate to have generous alumni, parents, and friends who make a difference through gifts of real property. The first step in the process of making a real estate gift should be for a prospective donor to talk with a staff member in Stanford's Office of Planned Giving, as did all of the donors in the examples above.* And although each chose a different method for making a gift, they all enjoyed capital gains tax savings upon the sale of their properties and received a sizable tax deduction. Equally important, each donor was able to leave a personal mark on Stanford through significant support for those areas they found most compelling.

*PLEASE NOTE: *In a handful of cases, possible environmental hazards, outstanding leases or mortgages, and marketability may determine whether Stanford will be able to accept a gift of real estate.*

The Founding Grant Society seal is taken from the cover of the Founding Grant. The letters L, S, J, and U are intertwined in an elaborate monogram. For more information about the Founding Grant Society, please see the back cover.

GOOD COUNSEL

BY CAROL J. KERSTEN
DIRECTOR OF PLANNED GIVING FOR STANFORD UNIVERSITY MEDICAL CENTER


Carol J. Kersten, J.D. '82

This issue of *Remember Stanford* features a range of options for supporting Stanford through gifts of real estate, an asset that has, in many cases, reached unprecedented levels of appreciation. Whatever you think of the long-term prospects for real estate as an investment, it can make an excellent charitable gift.

Appreciation, which makes an investment so attractive, can be problematic when an owner wishes to convert an asset to cash. Capital gains taxes (combining state and federal rates) can total more than 20 percent of an asset's value. By making a gift of real estate to a charity like Stanford, a donor avoids paying capital gains tax and receives a substantial charitable income tax deduction.

As you will read throughout this issue, individuals have given real estate to Stanford in many different ways. For example, Norma and Bob Street, M.S. '57, Ph.D. '63, made an outright gift of their vacation home, a gift that can be sold and the proceeds used immediately by the university. Clay "Daulton" Hatch, '54, left his home to Stanford through his estate. His estate received a sizable tax deduction and the proceeds established an endowed undergraduate scholarship. Professor John J. Johnson and his wife, Maurine, gave a remainder interest in their campus condominium to Stanford, retaining ownership rights during their lives. This allowed them to claim a large charitable income tax deduction at the time they made the gift. And finally, Emily, '44, and Bob Haffner, '47, M.S. '49, chose one of the most popular means for making a gift of real estate. They used their vacation home to create a charitable remainder unitrust, which will provide a monthly income to them and an eventual gift to Stanford.

We in Planned Giving have found unitrusts to be particularly appealing to individuals contemplating a move to a retirement complex. For example, if a single individual owns a home worth $1,000,000 in today's market that he or she purchased years ago for $500,000, the amount of capital gain on the sale of the home would be $500,000. If the house was used as a personal residence for two of the last five years, the homeowner can avoid capital gains tax on $250,000, but will still owe tax on the remaining $250,000 of gain. If the homeowner gives a 50 percent interest in the property to a unitrust at Stanford and if the house is later sold for $1,000,000, the donor does not pay capital gains tax because the retained half interest is sheltered by the $250,000 exemption. The unitrust is also exempt from capital gains tax. The owner receives cash for one-half the value of the house and will receive a lifetime income from the unitrust based on its remaining value, undiminished by capital gains tax. In addition, the donor receives a charitable income tax deduction for part of the value of the gift.

I hope this issue helps illustrate the range of ways that gifts of real estate benefit you and your favorite programs at Stanford, from the arts to medical research to undergraduate and graduate education. Please let us know if you would like to discuss the possibilities. ❧


Professor Arthur Schawlow in 1964. He used to entertain students by shooting a beam through a transparent balloon to pop the dark Mickey Mouse balloon inside. The demonstration showed that the laser could be tuned to pass through the transparent outer balloon without burning it.

Ask the Stanford Management Company

Ellen Smith

Ellen Smith, a real estate broker, has worked in Stanford's gift real estate program since 1981. She is currently the director of gift real estate at Stanford Management Company, where she works with donors to accept, manage, and sell gift real estate for the university.

What is the value of the property that Stanford receives annually? What does the university do with these gifts?

The amount we receive each year varies tremendously. For example, one year we received $33 million in gifts, the next year we received $7 million, and $10 million the year after that. Our plan is to sell gift real estate as quickly as we can, provided there is no compelling reason to keep it, so that the proceeds may be used right away for the donor's intended purpose.

Will you work with a real estate agent that a donor has worked with in the past?

We try very hard to work with anyone the donor recommends, as long as that person is a professional who we feel will do the best job for the property. Our ultimate goal is to maximize the value of the asset for the donor and for the university. The best way to do that is to work with people who are knowledgeable in the real estate field and who have a lot of experience. Most of the time we are able to work with donors' agents.

Are there advantages to making a gift of property?

There are tax advantages. For instance, if a person bought a piece of property a number of years ago and wanted to sell it now, he or she would likely have to pay tax on the capital gains. By donating the property to the university, the owner would receive a tax deduction for the full value of the property as a gift, and the university can sell it without having to pay capital gains tax.

What types of real estate will the university accept?

We have taken just about anything you can imagine: commercial property, office buildings, residences, rental property, farmland, and unimproved lots. For the most part, we are able to accept property as long as it is readily saleable.

What makes a property an undesirable gift for Stanford?

When I first came to Stanford, the policy was to accept almost anything a donor wanted to give, especially assets from an estate. Today we are more careful, due to potential liabilities. Things that would prevent us from taking title include environmental contamination issues—a large cleanup problem, for example—and multiple ownership. We are interested in properties that can be sold quickly and provide funds for whatever university purpose the donor wishes. For instance, we will sometimes turn down property that cannot be sold for a number of years because the university doesn't generally have the ability to oversee its management. This is especially critical if the property is located a long distance from California. We are better able to manage property located nearby and that requires limited oversight.

What are some of the most unusual real estate gifts the university has received?

A number of years ago, the university was given several cemetery plots in the Los Angeles area. That was a real challenge, although we did find a buyer. We also had a cattle ranch in Colorado, which was a very generous gift and an interesting property to manage. It was a working cattle ranch, so we had to maintain the herd while we developed a marketing plan.

Does the university accept international properties?

Stanford was given some bogland in Ireland and a villa in Florence, both of which we were able to sell. However, international properties can be difficult to liquidate. The laws of the country in which the property resides may restrict our ability to transfer sale proceeds back to the U.S. If the laws prohibit us from taking money out of the country, we have to make sure the university can use the proceeds for the donor's purpose. In the case of the Italian villa, Stanford has a campus in Florence that the donor wished to support, which was ideal.

Do you have any suggestions for people who are considering gifts of real estate?

If you have a piece of real estate and you want an income from it, one of the best ways to do that is through a charitable remainder unitrust. Stanford has a well-established trust program and an excellent track record in investing and managing the funds. The donors I know who have established unitrusts with the university have been very satisfied. Furthermore, if you are thinking about making a gift, an appreciated asset such as real estate is a good one to use because you can take advantage of that appreciation without paying the capital gains taxes. Any appreciated asset that you own makes a good gift to a charitable organization.

Students at Stanford's Overseas Study Center in Florence, Italy, during a December 1966 flood

Clay “Daulton” Hatch, ’54

Remembering Stanford

Like Stanford University itself, Clay “Daulton” Hatch, ’54, was the product of a family of bona fide California pioneers. Daulton’s maternal and paternal forbears came to California in 1849—lured west by vision and possibility—and their descendants remain in the state today.

True to his lineage, Daulton pursued a range of opportunities where he found interest. Initially starting his career as a stockbroker in San Francisco, Daulton moved to the Monterey Peninsula in the 1960s and became co-owner of the Bookworm bookstore in Carmel while he managed real estate and other investments and traveled the world. Preserving the heritage of his family, California, and Stanford University was important to Daulton, who was a member of the Society of California

LATE-BREAKING NEWS

The Katrina Emergency Tax Relief Act of 2005, signed into law by President Bush on September 23, has made certain temporary changes to the federal tax laws. *These changes apply only to outright charitable gifts of cash made between August 28, 2005 and December 31, 2005.*

Highlights of this new legislation include:

- The annual limit on tax deductions for certain outright charitable gifts of cash has increased from 50 percent of adjusted gross income (AGI) to 100 percent of AGI.
- These same outright gifts of cash are also exempt from the 3 percent reduction in itemized deductions for individuals with an AGI over $145,950.
- Cash gifts to a private foundation, supporting organization, or donor-advised fund do not qualify for the higher limit or the 3-percent-rule exemption. Cash gifts made to Stanford during this period ending December 31, 2005 will qualify.
- These changes may present some donors with an attractive opportunity to fund outright gifts with assets withdrawn from an IRA or other qualified retirement plan [for example, 401(k) and 403(b) plans]. Please contact the Office of Planned Giving, at (800) 227-8977, ext. 5-4358, for further information, and/or consult with your own tax advisors.

Annabelle Evans, ’68, center, was elected Stanford’s first Homecoming Queen in 1966. Princesses are Eleanor Watkins, ’69, left, and Diane Carter, ’68.

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Pioneers, a charter member of Stanford's Founding Grant Society, a charter member of the Cowboy Hall of Fame, and a member of the San Francisco Palace of Fine Arts Refurbishment Committee.

Philanthropy "was part of the family tradition," says longtime friend George Walker. "Daulton never wavered in doing that kind of work."

Stanford, and its role in the Hatch family history, meant a great deal to Daulton, who passed away earlier this year. His father and grandfather were also alumni, and he maintained his ties with the university throughout his life. "Daulton had no children, so he wanted to do what he could to benefit Stanford," says Mr. Walker.

Today Daulton's legacy lives on through the Clay Daulton Hatch Scholarship Fund for economics students, created through a bequest of his home in Pebble Beach, California. His generosity will allow generations of students to realize their potential at Stanford—and become the pioneers of the future. ❧

Do you have a favorite memory, an amusing or touching story, or a photo of yourself from your Stanford days? Remember Stanford would love to know about it and have the opportunity to share it with our readers. You are invited to send your stories and photos to us via e-mail to Trisha Ball at trisha.ball@stanford.edu. You may also send them by regular mail to Remember Stanford, Office of Planned Giving, Frances C. Arrillaga Alumni Center, 326 Galvez Street, Stanford, CA 94305. We will make every effort to return photos promptly.

Recent Estate Gifts

Stanford is grateful to the generous friends and alumni who remember the university in their estate plans. These gifts make a difference across the university. A sampling of recent estate gifts appears below.

BERNICE W. BEHRENS, '32, made a specific gift of $20,000 to provide undergraduate scholarship funds in memory of Earl C. and Bernice Woodard Behrens.

KATHRYN N. CUTLER, '39, willed the residue of her estate, approximately $794,000, to be added to the university's general endowment.

DOROTHY L. DUDLEY, a friend of the university, made a specific bequest of $5,000 for unrestricted support of Stanford in honor of her brother, **WILLIAM D. LAWRENCE, '27**.

PATRICIA V. MCMULLAN, a friend of the university and two-time cancer survivor, made a gift of $100 for cancer research at Stanford University School of Medicine.

VIOLA S. MILLS, a friend of the university, left the residue of her estate, approximately $4,000,000, to support research into the causes, treatment, and cure of cancer at the School of Medicine.

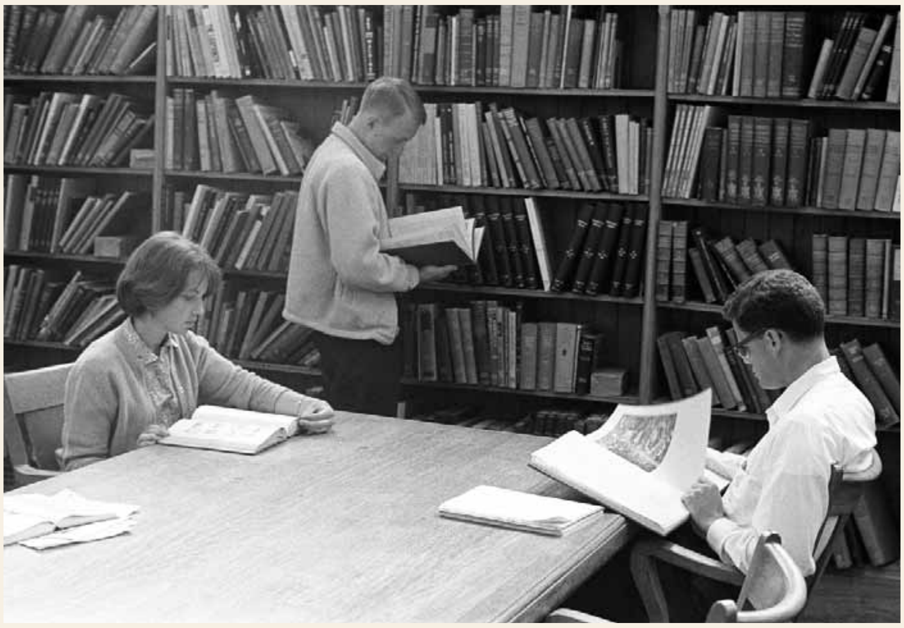
NINA AND DELMAR PEBLEY, friends of the university, named Stanford as the beneficiary of a portion of their unitrust totaling approximately $320,000. The gift has been used to create the Delmar and Nina Pebley Water Polo Scholarship.

DRAGISHA N. RISTIC, a friend of the university, left archival materials as well as a remainder interest in his home in Monterey, California, to the Hoover Institution. The gift, which totaled approximately $694,000, has been used to establish the Dragisha N. Ristic Center for Cultural Studies at the Hoover Institution.

JOHN J. SMORTCHEVSKY, a friend of the university, made a bequest of his residence in San Francisco, valued at approximately $801,000, to endow the J.J., L.P., and A.J. Smortchevsky Fellowship Fund, which supports graduate students in the Department of Physics.

CHARLES A. STEINMETZ, M.B.A. '72, left the residue of his estate, totaling approximately $2,300,000, to endow the Steinmetz-Narhi Fund. The fund provides scholarships for undergraduate students who have declared a major within the School of Engineering.

ESTHER M. TALBOT, A.M. '49, willed her entire estate, including her home, to support cancer research in the School of Medicine in honor of her parents, S.W. and Blanche Talbot. The gift totaled approximately $788,000.



Students at work in the Humanities Reference Room of the Main Library, 1963

DESIGN: MADELEINE CORSON DESIGN, SAN FRANCISCO

TAX TIPS

Year-end gifts to charity and deadlines for 2005 tax deductions

- Checks or properly endorsed securities sent by mail must be postmarked no later than December 31, 2005. Gifts sent via FedEx, DHL, or other means must arrive at the charity by December 31, 2005.
- Credit card gifts must be charged to the credit card no later than December 31, 2005.
- Gifts of securities through a brokerage account must be transferred into the charity's account no later than December 31, 2005.
- Deeds to gifts of real estate must be delivered to the charity no later than December 31, 2005.

Limits on income tax charitable deductions

Generally, gifts of cash are deductible up to 50 percent of the donor's adjusted gross income (AGI) and gifts of appreciated securities or other assets (e.g., real estate) held more than one year by the donor are deductible up to 30 percent of the donor's AGI. However, see page 6 for an important onetime exception regarding gifts of cash.

Any excess deduction can be carried over for up to five succeeding years, subject to the same percentage limitations.

Capital gains tax on sale of residence

A seller may exclude up to $250,000 ($500,000 if married filing jointly) from capital gains on the sale of property that has served as a principal residence for at least two of the last five years.

Under some circumstances, a seller who does not satisfy the two-year requirement may still qualify for part of the capital gains exclusion.

See IRS Publication 523 (available at http://www.irs.gov) for more detailed information.

FOUNDING GRANT SOCIETY

Leland Stanford Junior University opened its doors to students on October 1, 1891. Over the ensuing one hundred and fourteen years, Stanford has grown into a major research university known around the world. Most Stanford alumni and friends are aware that the university was founded as a memorial to Jane and Leland Stanford's son, Leland Junior. What is less well known is why and how the Stanfords came to make such a momentous decision.

Recently, Founding Grant Society members and other alumni and friends joined university archivist Maggie Kimball, '80, for her talk "The Life and Legacy of the Stanford Family," which explores the lives of Jane and Leland, and the personal experiences that informed their thinking as they considered how best to honor the memory of their young son. Maggie spoke at the "Stanford Gatherings" sponsored by the Founding Grant Society on November 9 in Sacramento and November 10 in Fresno, helping to illuminate Leland's education, business experience, and political career, as well as Jane's family life and role as university co-founder and benefactor.

Maggie Kimball, '80

The Founding Grant Society recognizes and honors those individuals whose estate gifts will provide future support for Stanford University, including its medical center, the Cantor Arts Center, and the Hoover Institution. For more information about the Founding Grant Society and its events, contact the Office of Planned Giving by phone at (800) 227-8977, ext. 5-4358, or by e-mail at planned.giving@stanford.edu. If you think you qualify for membership and would like to join, please complete the attached application and return it to us. ❧

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