

IN PART PAYMENT

With the compliments of

Dr. W. C. Giersbach, President

PACIFIC UNIVERSITY

At Forest Grove, Oregon, Since 1849

*Prepared in the interests of Schools, Colleges and Charitable Institutions by
Merrill Lynch, Pierce, Jenner & Beane*



The Endless Frontier

Now that peace has finally come, the past wishes to deed to the future a "brave new world" promised in payment for the long years of suffering. This ambitious legacy, outlined in the expressions of all the thinkers of our time, may slip through the fingers of the heirs unless there is careful management. This greatest of all wills needs the most capable of all executors—the voters, leaders, and mothers of leaders who are being trained today in America's institutions of learning.

Our country is at the peak of its influence, and the post-war world condition will depend in large measure upon the character and intelligence of American youth. Never before in our history have colleges and universities faced such grave educational responsibilities. Never before have the problems of these institutions been of such vital interest to every citizen of the United States.

We will demand the highest of achievements from the colleges in the coming years, even though our debt to them is already immeasurable.

College Research Is Invaluable

At what value, for instance, would you assess the atomic research which helped bring the war to an end? "Manhattan Project," as it was called, was cradled in the universities. Hard-working scientists in these institutions dug facts out of nature for its development. If your son, brother, or husband was fighting in the Pacific in August, 1945, how much do you owe for the man-hours of university labor that stopped the shooting?

We Must Make Part Payment

America's colleges have looked ahead to well-considered programs for post-war research, for educational opportunities for uniformed men and women, for training minds to cope with post-war responsibilities. They are molding able executors of the "brave new world," but they cannot carry the extra burden alone.

There is a way in which we can make partial payment for their services to us through our youth: by giving them as much of our support, both financial and moral, as is possible.

Any college education costs more than is paid by the student receiving it; but tuition charges must be kept down despite the fact that operating costs have risen, and scholarships must be maintained and increased. Programs of expansion in buildings and equipment to meet new needs have already started, with construction costs about twenty per cent higher than originally expected. Changes in curriculum, such as those recently announced by Yale and Harvard, to meet new trends in education, will be expensive. The cost of teaching follows the upward curve of the cost of living.

Sometimes political pressure is an enemy of the colleges, and tax-supported institutions in particular require public-spirited resistance against it. It is the responsibility of all of us to protect college instruction from any such manipulation in the future.

If these conditions are to be overcome and young men and women are to be strengthened to meet the worldwide political stresses; if they are to learn to use science as a blessing instead of as a destructive force; if they are to be fitted for careers in an environment of increased specialization, then all of America must rally around those who are asked to do the job.



Neither must we neglect our old friends, the charities which were a part of the peacetime scene. Army figures show that the national health falls far short of perfection — hospitals, milk funds, community chests to ward off winter emergencies and programs to take children to the country for summer vacations, such as Fresh Air Funds, are national prerequisites.

We Are Still at War With Disease

We have made no peace with cancer, tuberculosis, infantile paralysis or heart disease, but fortunately we have organized peacetime armies to control them. Demands on the Red Cross and Salvation Army, and others are endless. Religious organizations, too, must keep up their good works in the post-war world.

Like the colleges, the charities depend upon your support. These are not easy times for them — the war has increased the demands upon their resources and at the same time their operating costs have risen. They cannot absorb this extra strain — they must not be forced to cut down on their activities.

Donations to charity are investments in democracy — each of them is a gilt-edged policy insuring the nation against future emergency. We are well-prepared to meet the greater demands of charity today — the present tax laws make it easier than ever for each person to do his share. We can increase our giving and widen the scope of our good works in the future.

Remember, America has taken very good care of its own and must continue to do so — not out of pity, or because it is our duty, but because it is a privilege.



Types of Gifts

The best gift from the point of view of the college, university or charity, naturally, is the unrestricted one because then the money can be used where it is most needed. However, any type of gift — restricted or unrestricted, large or small — is gratefully accepted. When you plan to make a gift, discuss it, if you wish, with the officials of the institution — they welcome the opportunity.

Gifts to colleges and universities fall into four main categories: (1) completely unrestricted gifts; (2) endowment with no restriction on the use of the income; (3) endowments and gifts for specific purposes — scholarships, fellowships and others; (4) gifts for physical purposes — plants, equipment, etc. Gifts may take the form of cash, securities, equipment or property, and may be made in one lump or on an annual basis. Some colleges have plans whereby the donor receives income from the gift during his lifetime or even the lifetime of his heirs. Examples are University of Chicago's "Living Trusts" and Cornell's "average income" gifts. Here, the individual benefits from the college's broad investment experience. Some colleges have plans whereby the college is made the beneficiary of insurance policies by its alumni. One new trend in giving is as memorials to young people lost in the war — some of these taking the shape of "living" memorials — scholarships so that other young people can fulfill the dreams of those who died in battle.

How to be Generous But Thrifty

In the midst of war, when the need for revenue was greater than at any other time in history, and tax rates soared, Congress continued to allow contributions to be deducted for income tax purposes. In fact, it even allowed a slight rise in the permissible "ceiling" on such gifts. This action was eloquent testimony to the importance of continuing private support of charitable and educational institutions. According to the present law, an individual is allowed a deduction for such contributions up to 15% of his adjusted gross income — which is, broadly speaking, gross income less business deductions.

It is important to note, too, that the tax deduction is permitted on the basis of the *fair market value* (not the cost) of the gift. Many people apparently do not realize the extent of the permissible deduction because studies in the past have shown that many do not take full advantage of it.

Obviously, the larger your income and the higher your tax bracket, the lower the net cost of your gift. Yet tax rates are so high that gifts from persons of relatively modest incomes can be made at low cost. The following table gives a few typical examples. Only Federal income taxes have been taken into account. Naturally, if your income is subject to state income taxes in addition, the net cost will be even less.

| Adjusted Gross Income | Maximum Contributions Allowed as Deduction | Approximate Percentage Cost to Donor of Contribution* | Net Cost to Donor of Maximum Contributions* |
|--------------------------|---|--|---|
| \$ 3,000 | \$ 450 | 77% | \$ 346.50 |
| 4,000 | 600 | 77 | 462.00 |
| 5,000 | 750 | 75 | 567.50 |
| 6,000 | 900 | 75 | 675.00 |
| 7,000 | 1,050 | 71 | 775.50 |
| 8,000 | 1,200 | 71 | 852.00 |
| 9,000 | 1,350 | 67 | 954.50 |
| 10,000 | 1,500 | 67 | 1,025.00 |
| 15,000 | 2,250 | 59 | 1,357.50 |
| 20,000 | 3,000 | 50 | 1,540.00 |
| 25,000 | 3,750 | 41 | 1,672.50 |
| 30,000 | 4,500 | 38 | 1,755.00 |
| 35,000 | 5,150 | 35 | 1,852.00 |
| 40,000 | 6,000 | 32 | 2,040.00 |
| 50,000 | 7,500 | 28 | 2,200.00 |
| 75,000 | 11,250 | 19 | 2,310.00 |
| 100,000 | 15,000 | 13 | 2,160.00 |
| 300,000 | 45,000 | 6 | 2,700.00 |
| 500,000 | 75,000 | 6 | 4,500.00 |

* It has been assumed that the taxpayer is a married man with two children, and that he has deductions, other than charitable, of 10% of his adjusted gross income and that his wife has no income and files no return. In certain tax brackets, the percentage cost of a portion of the contribution varies slightly from the figures indicated.

Giving Can Be Thrifty or Expensive

Many taxpayers fall into the habit of thinking that contributions can be made only in the form of cash. This is not so. Contributions may be made in *any* type of property — stocks or bonds, for example — and a tax deduction will be permitted up to the fair market value of the property contributed.

The form in which the gift is made is often a very vital factor in determining its net cost to the giver. For example, assume that you are in the 75 percent federal income tax bracket and that you wish to make a contribution of \$7,500 to your college. What is the thriftiest way to do it?

Method 1 — Outright Gift of Cash

If you deduct \$7,500 from your adjusted gross income, the net cost of the gift is \$1,875 (25% of \$7,500).

Method 2 — Selling Securities on Which You Have A Profit

You own 1,000 shares of stock for which you paid \$5 a share. The present market value of this stock is \$7.50 a share, thus giving you a paper profit of \$2,500. Assume that you have held the stock for more than six months. You would have to pay a \$625 capital gains tax (25% of \$2,500) if you sold the shares on the market. This would leave a balance of only \$6,875 (\$7,500 — \$625) for the college. Furthermore, since your contribution is now \$6,875, your income tax saving comes to only \$5,156.25 (75% of \$6,875). In other words, if you sell the stock and give the proceeds, it would cost you a net of \$2,343.75 (\$7,500 less \$5,156.25) and the college will get only \$6,875.

Method 3—Giving the Securities

If you turn over to the college the appreciated shares of stock, instead of making the contribution in cash, you may claim a charitable deduction of the full \$7,500 market value. This will mean a tax saving of \$5,625 (75% of \$7,500) and the college will get the benefit of the full amount — \$7,500. Furthermore, while you take the full market value as a deduction, you are not considered to have realized any capital gain.

Method 4—Selling Securities on Which You Have A Loss

If you hold securities on which you have incurred a paper loss of, say, \$15,000, and the securities are now worth \$7,500, it will be to your advantage to *sell the stock and give the proceeds*. You may then use the \$15,000 loss to offset any capital gains you may have. Any excess loss may be taken as a deduction from ordinary income to the extent of \$1,000. If there is any unused portion of the \$15,000 loss, it may be carried over to the five following years.

Corporations May Contribute

Corporations, as well as individuals, are allowed to claim contributions and gifts as deductions from income for tax purposes. The "ceiling" is a little lower than in the case of individuals, however, and a corporation may not deduct as contributions more than 5 percent of net income before taking charitable contributions into account, unless such excess qualifies as an ordinary and necessary business expense of the corporation.

Permissible recipients of corporate gifts are about the same as in the

case of individuals. There are some exceptions, however, which can be explained by your tax counsel.

Estates Can Also Give Thriftily

The tax law also gives preferential treatment to the estate of an individual who bequeaths property or money to charitable or educational institutions. Here, aside from limitations imposed by state laws, there is no limit to the amount deductible. The amount of the charitable bequest is deductible from the value of the gross estate before computing taxes. In addition, it is possible to arrange for testamentary gifts in which relatives are given a life income from the property and at the death of the relatives, the principal is directed to pass to the charity or college. Consultation by the donors or their counsel with officials of the institution is especially helpful in the case of estate gifts.

The following table shows the net cost to the estate of varying charitable bequests on the basis of estate tax deductions:

| Net Taxable Estate (after exemption but before deducting legacy) | Amount of Legacy | Net Cost After Deducting Estate Taxes |
|--|------------------|---|
| \$ 100,000 | \$ 10,000 | \$ 7,200 |
| 250,000 | 25,000 | 17,500 |
| 500,000 | 50,000 | 34,000 |
| 750,000 | 75,000 | 48,750 |
| 1,000,000 | 100,000 | 63,000 |
| 2,000,000 | 200,000 | 110,000 |
| 5,000,000 | 500,000 | 185,000 |
| 10,000,000 | 1,000,000 | 240,000 |

Check List of Institutions to Which You Can Make Deductible Contributions

Naturally, the following list is far from complete. But it is comprehensive enough to cover the major types of institutions and organizations which are entitled to receive tax-free donations from individuals. You may find it convenient to check the ones in which you are interested.

1. Any domestic non-profit organization operated exclusively for one of the following purposes:

a. Religious. This includes contributions of gifts to churches, synagogues and other religious bodies, including payments for pew rents, assessments and dues.

b. Charitable, including community chests and trusts, hospitals, Salvation Army, Red Cross, etc.

c. Literary and educational. This category includes schools, colleges and universities.

d. Scientific.

e. Prevention of cruelty to children or animals. This includes those groups attempting to correct the employment of children in hazardous occupations, and those encouraging better treatment of children or animals.

2. The United States or any state, city, or town for exclusively public purposes. This category includes state and city universities, village improvement associations, police and fire department organizations, etc.

3. The special fund for vocational rehabilitation authorized by the World War Veterans Act of 1924, commonly called the Vocational Rehabilitation Act.

4. Domestic non-profit organizations of war veterans, including auxiliary units.

5. A domestic fraternal society, order or association operating under the lodge system, but only if such contributions are to be used exclusively for religious, charitable, scientific, literary or educational purposes, or for the prevention of cruelty to children or animals.

The data in this book have been obtained from sources which we believe reliable. We can assume no responsibility for it. Readers should consult their attorneys or tax experts on specific tax problems.

October, 1945



SUGGESTED FORMS FOR BEQUESTS TO PACIFIC UNIVERSITY

For a specific bequest without condition:

I give and bequeath to Pacific University, a corporation acting through its Board of Trustees and conducting an educational institution at Forest Grove, Oregon the sum of _____ dollars, to be used at the discretion of said Board of Trustees in promoting the work and objects of said Pacific University.

For a bequest to the permanent endowment funds:

I give and bequeath to Pacific University, a corporation acting through its Board of Trustees and conducting an educational institution at Forest Grove, Oregon, the sum of _____ dollars to become a part of the permanent endowment funds of said University and to be known as the _____ Memorial Fund, to be invested and re-invested from time to time by said University at the discretion of its Board of Trustees and the income therefrom to be used (here set out purposes; for example, the following purposes) in helping to maintain at said University a chair of religion or a department which has as one of its principal purposes the development of religious education.

Form to be used if the rest, residue and remainder or a portion thereof is to be given:

All the rest, residue and remainder of my estate (one-half of the rest, residue and remainder) of whatsoever kind and wheresoever found, I give, devise and bequeath to Pacific University, a corporation acting through its Board of Trustees and conducting an educational institution at Forest Grove, Oregon, to be used at the discretion of said Board of Trustees, in promoting the work and objects of said Pacific University to become a part of the permanent endowment funds and to be known as the _____ Memorial Fund, to be invested and reinvested from time to time by said University at the discretion of its Board of Trustees and the income therefrom to be used (here set out purposes; for example, the following purposes) in helping to maintain at said University a chair of religion or a department which has as one of its principal purposes the development of religious education.