



# Summer 2011 SPECIAL EDITION Futures

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A no-nonsense newsletter for estate planners and financial advisors from The Dayton Foundation

## DP&L – A Likely Taxable Event This Year and How the Charitable Option Can Play a Role

By Jack H. Adam, Vice President and Portfolio Manager, Johnson Investment Counsel, Inc.

*“Some wonderful charitable gift vehicles... can enable individuals... to receive income that they no longer are receiving from DP&L dividends.”*

—Jack H. Adam

Here are the merger details. On April 20, 2011, DPL Inc. executives announced they were selling the Dayton-based company to AES Corporation, headquartered in Arlington, Virginia. AES Corporation will pay DPL Inc. shareholders of record \$30 cash for each of their shares. The transaction is subject to approval by DPL shareholders, the Public Utilities Commission of Ohio (PUCO), the Federal Energy Regulatory Commission (FERC) and the antitrust review under Hart-Scott-Rodino Act. These approvals are expected to be completed within six to nine months.

Provided the transaction is approved and completed in 2011, many DPL Inc. shareholders will have a capital gain tax event this current tax year. The capital gain event will vary across shareholders, based on the time they invested in the company and their individual cost basis. Shareholders of DPL Inc. are strongly encouraged to contact their financial advisors regarding this merger. Further,

shareholders also should consider contacting their tax professionals for a better understanding of how this capital gain event will impact their individual tax situations. Please keep in mind it is possible that this merger closes in 2012,

thus making the capital gain event occur in the 2012 tax year.

### DPL Stock for Charitable Purposes

If an impacted shareholder has ever had a charitable inclination, there may not be a better time than now to consider The Dayton Foundation. A DPL Inc. shareholder can establish a fund with The Dayton Foundation to serve his or her special charitable purposes. The shareholder then can donate his or her low-cost-basis stock, in the year the transaction is completed, to The Dayton Foundation, which will have the stock sold and deposit the proceeds into the shareholder's fund, undiminished by long-term capital gains taxes. This also potentially may lower his or her current-year tax ramifications. The proceeds of the donated stock will allow for current and multi-year charitable gifts going forward. The gifts can be directed to many charities, based on the individual's wishes.

Shareholders have the opportunity to consider a wide range of charitable gift options that The Dayton Foundation provides. The simplest is a Charitable Checking Account.<sup>SM</sup> This allows the individual to direct gifts as often as he or she wishes to any IRS-approved U.S. nonprofits. The individual can do all the transactions online on the Foundation's secure, password-protected service, Donor Express. Many other excellent options include several different types of endowment funds, as well as private foundation alternatives. Some wonderful charitable gift vehicles the Foundation has available are Charitable Gift Annuities, Charitable Lead Trusts or Charitable

Remainder Trusts. These can enable the DPL Inc. shareholders to utilize The Dayton Foundation to receive income that they no longer are receiving from DPL dividends.

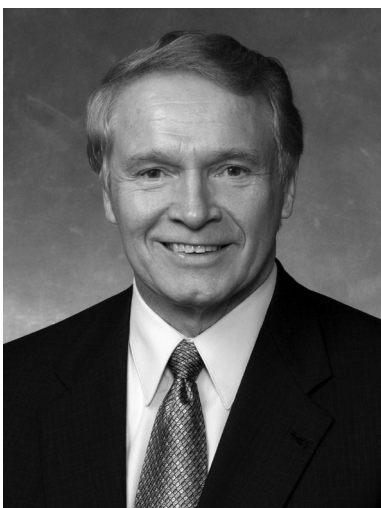
With such income-producing vehicles and depending upon the individual's age and the cost basis of the stock, not only could a tax savings be realized utilizing The Dayton Foundation, but also a supplementary income. In the case of a Charitable Gift Annuity and a Charitable Remainder Trust, a shareholder receives income during his or her lifetime, with the residue that is left after his or her passing going to the charitable cause of the individual's choice. In the case of a Charitable Lead Trust, the charity receives the benefit of the asset while the shareholder is alive, with the balance coming back to him or her or to the individual(s) of his or her choice.

Everyone's situation is different. It would be advisable to contact Joe Baldasare, Vice President of Development, or Angela Clements, Senior Development Officer, at The Dayton Foundation to ask for a free illustration of how a Charitable Gift Annuity or a Charitable Remainder Trust, for example, may benefit your client. Many shareholders already may use the fine services The Dayton Foundation provides. This event may provide a further opportunity to use additional services and products of The Dayton Foundation.

### Specific Case Example

An individual chooses to invest money into DPL Inc., buying 2500 shares at \$11.73 per share on February 28, 2003. If this shareholder

*Continued...*



JACK H. ADAM

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– Jack H. Adam

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## I Believe!

Dayton Foundation donors and families who have stepped forward to become the 2010-2011 “I Believe!” Partners of The Dayton Foundation. Their commitment underwrites a full year of Dayton Foundation publications, thereby freeing resources for the Foundation’s other community work.

“I Believe!” Partners: Carol & Jack H. Adam, Leona E. & Jane A. Dunwoodie, Janet A. & Donald L. Grieshop, and Marcia L. & Donald J. Schade

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Continued from page 1

sells today, he will have a long-term capital gain of approximately \$18.27 per share. Federal long-term capital gains rates currently are 15%. The State of Ohio has an approximately 6% long-term capital gains rate. The shareholder paid just under \$30,000 for the stock, and he will collect \$75,000 in cash at the close of the merger. The approximate capital gains/tax liability applied to the sale proceeds, minus the cost basis, will be \$9,600 for a State of Ohio resident in this scenario.

Let’s assume the shareholder is charitably inclined and desires to pay lower taxes. He chooses to open a Charitable Checking Account at The Dayton Foundation and donate 400 shares of his DPL Inc. shares. He will receive the tax benefit of the \$12,000 gift in the current year, which will completely erode his tax liability. The Dayton Foundation will sell the 400 shares at the current market price – say, approximately \$30 – thus allowing the shareholder to give the \$12,000 away to the charities he selects over the next several years as he so chooses.

### In Summary

Generally, individuals get to choose when to buy and sell securities. However, every now and then, the companies they invest in announce a merger for cash. Shareholders are empowered to vote their shares for or against the merger. Since the merger typically means more wealth for the investor, these types of mergers tend to be accepted by shareholders and are completed. There always is the chance the deal will fall apart for various reasons.

Shareholders impacted directly by this DPL Inc. merger strongly are encouraged to consult their financial advisors and tax professionals to properly evaluate their

## An Alternative Unique to Community Foundations

You may have clients who have the desire to give to charity, but they may not have specific charities they wish to fund. Their interest may be the community as a whole. You also may have clients who have specific charities they wish to benefit, but in addition, would like to use a portion of their charitable gift to help the community broadly.

In these cases, an offering of The Dayton Foundation may be just the answer to your clients’ wishes. This is an unrestricted fund, or Community Impact Endowment Fund.

The way this works is that the clients may establish a Community Impact Endowment Fund in their or a loved one’s name, if they so desire. This gives The Dayton Foundation the discretion to apply funds wherever need or opportunity is greatest in the region at any point in time. Grants are made in the donors’ name, unless the donors prefer anonymity. As an endowed fund, it is designed to continue in perpetuity, honoring the donors and helping their community today and long after they’re gone. The donors have the option to create a totally unrestricted fund or to designate a percentage for this purpose.

If you’d like to read more about this unique option, go online and check out our brochure, *Community Impact Endowment Funds*, at [www.daytonfoundation.org/brochure.html](http://www.daytonfoundation.org/brochure.html). You also may call Joe Baldasare, Vice President of Development, at (937) 225-9954 for more information or for copies of the brochure. 🌱

individual scenarios and come up with the right strategy for them. We believe this is a great opportunity for those who are charitably inclined to benefit from the great people and services that The Dayton Foundation provides.

For more information, contact The Dayton Foundation at (937) 222-0410 and ask for Joe or Angela in the Development Department. 🌱

**Note: Solutions will differ from case to case. The above does not constitute professional financial or tax advice.**

*Jack H. Adam is Vice President and Portfolio Manager for Johnson Investment Counsel, Inc. (JIC). He was the Founder of Mead Adam & Company and President prior to its sale to JIC. In addition to managing marketable securities, he has developed proprietary systems for asset allocation, stock selection and technical analysis.*

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Meeting All Standards for U.S. Community Foundations.



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