

Beacon Trust Featuring Schwab Charitable Presents: **Charitable Gifting Strategies for Changing Times**

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Current Charitable Landscape

- CARES Act
 - Cash contributions – up to 100% of AGI (extended through 2021)
 - Individuals taking standard deduction can claim extra \$300 for charitable; \$600 for couples
 - Cash contributions for businesses deductible up to 25% of taxable income
- Current Tax Benefits for Charitable Gifting
 - 30% of AGI for donation of non-cash assets held >1 year
 - Donation amounts in excess can be carried over for up to 5 tax years
- Market Performance



Strategy #1 – Gifting Appreciated Securities

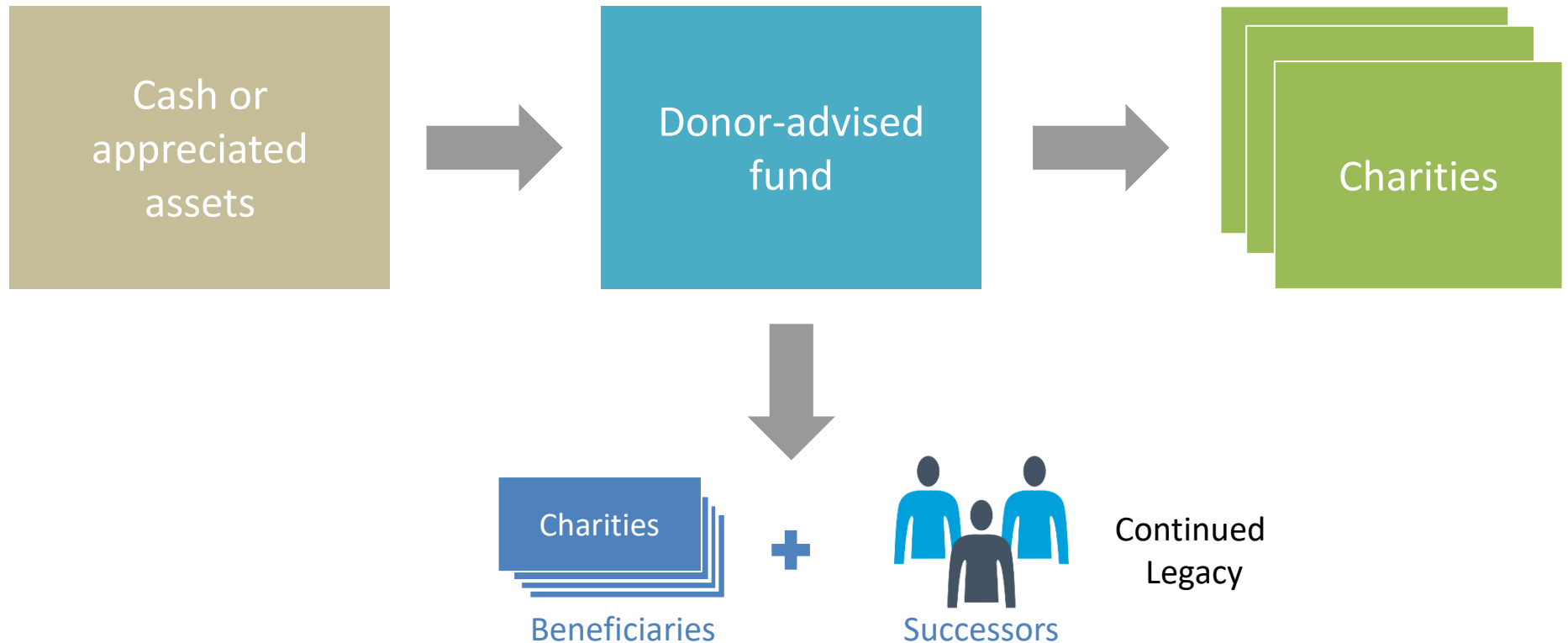
- For those who itemize deductions, appreciated non-cash assets held more than one year may offer an additional tax benefit in comparison to cash donations.
- Beyond claiming a deduction for the fair market value of an asset, donors can potentially eliminate the capital gains tax they would otherwise incur if they sold the asset and donated the cash proceeds.
- One of the easiest ways to do this is by using a Donor Advised Fund account.
 - What is a Donor Advised Fund (DAF)?

How does a Donor Advised Fund work?

Potentially eliminate capital gains tax and income tax deduction*

Investment Management

Grant over time



What are the tax advantages to contributing appreciated non-cash assets?

EXAMPLE: Value of 1,000 shares: \$100,000
Potential capital gains: \$95,000

OPTION 1: *Sell* stock and donate net proceeds

Value of Charitable Deduction* less Capital Gains tax paid: **\$10,970**

Total for charity: **\$81,000**

OPTION 2: *Donate stock directly* to charitable account

Value of Charitable Deduction*: **\$37,000**

Total for charity: **\$100,000**

Tax savings = More for charity

*A donor's ability to claim itemized deductions is subject to a variety of limitations depending on the donor's specific tax situation. Consult your tax advisor for more information.

Hypothetical, for illustrative purposes only. Assumes cost basis of \$5,000, that the investment has been held for more than a year and that all realized gains are subject to a 20% federal long-term capital gains tax rate. Does not take into account any state or local taxes or the 3.8% Medicare Surtax resulting from net investment income.

Assumes donor is in the 37% federal tax bracket and does not account for state or local taxes. Certain federal income tax deductions, including the charitable contribution, are available only to taxpayers who itemize deductions, and may be subject to reduction for taxpayers with adjusted gross income (AGI) above certain levels. In addition, deductions for charitable contributions may be limited based on the type of property donated, the type of charity, and the donor's AGI.

Strategy #2 - Bunching Gifts

What is bunching?

- Bunching is the grouping of charitable gifts you intend to make over a future period into a single year so the charitable deduction is large in the year of gifting and zero in the years no gifts are made.
- This does not mean you have to give directly to the charity in the year you bunch the gifts. Using a DAF can allow you to still gift evenly across multiple years to the charity.

How does it work?

- You would decide on anticipated charitable giving for current and future year(s), then bunch and pay all the contemplated gifts in Year 1.
 - In Year 1, the taxpayer itemizes deductions to reduce her taxable income.
 - In Year 2 and beyond, the taxpayer makes no further charitable donations and uses the standard deduction on the return.

Benefits of “bunching” or concentrating donations: a case study

Hypothetical example of a married couple with no children:

Tax Year	Option 1 Take the standard deduction		Option 2 Tax-smart planning: concentrate giving	
	2019	2020	2019	2020
Charitable Deduction	\$10,000	\$10,000	\$20,000	-
Other Deductions	\$13,000	\$13,000	\$13,000	\$13,000
Total	\$23,000	\$23,000	\$33,000	\$13,000
Standard or Itemized Deductions	Standard Deduction	Standard Deduction	Itemized Deduction	Standard Deduction
Deduction Amount	\$24,400	\$24,800	\$33,000	\$24,800
Total Two-Year Deduction		\$49,200		\$57,800

That's \$8,600 of additional tax deductions over two years!

Strategy #3 – Qualified Charitable Distributions

- You must be at least 70½ years old at the time you request a QCD. If you process a distribution prior to reaching this age, the distribution will be treated as taxable income.
- The maximum annual distribution amount that can qualify for a QCD is \$100,000. This limit would apply to the sum of QCDs made to one or more charities in a calendar year. If you're a joint tax filer, both you and your spouse can make a \$100,000 QCD from your own IRAs.
- For a QCD to count toward your current year's RMD, the funds must come out of your IRA by December 31st.
- Funds must be transferred directly from your IRA custodian to the qualified charity. This is accomplished by requesting your IRA custodian to issue a check from your IRA payable to the charity. You can then request that the check be mailed to the charity, or forward the check to the charity yourself.
- The account types that are eligible for QCDs include traditional and inherited IRAs.

If you are going to give to a charity anyway and are not reliant on the cash from any portion of your RMD, have that part go DIRECTLY from the traditional IRA to the charity.

Strategy #3 – Qualified Charitable Distributions from IRAs a case study

	Cash Gift	QCD Gift
Bob's Adjusted Gross Income – Including vs. Excluding \$42,510 RMD Cash Gift scenario includes \$80,000 plus \$42,510 RMD in income QCD Gift scenario excludes \$42,510 RMD from income Both examples assume no Social Security income	\$122,510	\$80,000
Bob's Charitable Donation Amount Assumes donation is to qualified public charity	\$42,510	\$42,510
Itemized or Standard Deduction When Filing Income Taxes Cash Gift scenario assumes gift is only itemized deduction QCD Gift scenario assumes 2021 standard deduction amounts: \$12,550 plus \$1,700 for additional standard deduction	\$42,510 itemized deduction	\$14,250 standard deduction
Bob's Estimated Federal Taxable Income	\$80,000	\$65,750
Bob's 2021 Estimated Federal Income Taxes Owed Based on 2021 tax rate/brackets and standard deduction Excludes other federal and state income taxes	\$13,354	\$10,219
Cash vs. QCD Gift – Estimated Tax Savings		\$3,135

Note: This example is for illustrative purposes only.⁵

Proposed Tax Law Changes with Potential Impact on Charitable Giving

- Taxpayers making more than \$400,000 per year would be taxed at a top ordinary income tax rate of 39.6% vs. 37% under current law, making charitable giving more advantageous under the new law
- 28% cap on charitable deductions for those making more than \$400,000 per year
 - Instead of avoiding income tax on charitable gifts at the rate of 39.6% as stated above, these taxpayers would escape income tax at a rate of only 28%
- Reinstate the 3% Pease Limitation for those earning more than \$400,000
 - Example: If AGI is \$550,000; then total itemized deductions would be reduced by \$4,500 $((\$550,000 - \$400,000) \times 3\%)$
 - Although the reinstatement of this rule could have some negative effects on charitable giving, the rule's impact could be blunted for taxpayers for whom the reduction can be absorbed by other types of itemized deductions (i.e., mortgage interest)

Proposed Tax Law Changes with Potential Impact on Charitable Giving

- Increase the capital gains and dividend tax rates from 20% to 39.6% for taxpayers whose annual income exceeds \$1 million
 - Creates incentive to gift appreciated assets in an effort to curtail this tax increase as generating a tax deduction in the form of charitable contributions would offset the capital gain income
- Lower the estate tax exemption to \$3.5 million per person (\$7 million per couple) and raise the applicable estate tax rate to 45%
- Eliminate the stepped-up cost basis at death for capital gains on inherited property
 - Currently, inherited assets receive a step-up in cost basis to the FMV on the date of death. The usual approach to defer gains will have no benefit if this step-up is eliminated. Without a basis step-up at death, there is no benefit of leaving appreciated assets to heirs as the capital gains tax would be owed and the heirs would not receive a benefit of the increased cost basis.

Questions?



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