TAX INFORMATION EVERY GIFT PLANNER SHOULD KNOW

PG CALC WEBINAR

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Introduction

The idea behind this presentation was to cover a relatively short list of the most basic and highly relevant tax aspects of planned giving under current conditions. We probably all know that planned giving is a fascinating but complex area of fundraising, and it requires a certain level of knowledge about tax laws. Everyone knows that making an immediate and outright gift to a qualified charity earns an income tax deduction, generally for the same amount; but if the contribution is something other than immediate and outright, the tax consequences become much more nuanced.

We admit, this is a highly subjective list, based on the author's experience, and PG Calc's experience, in planned giving over the past 30 - 35 years. In no way are we suggesting that these 12 topics will resonate with equal importance for everyone reading and listening. Some of the topics are short and basic, while others are longer and lean toward more advanced perspectives. This is simply our list of tax-related topics with which we believe every gift planning professional should be familiar.

1. Starting With The Most Basic Stuff

We need to start with the most basic and fundamental aspects of our current tax structure. For the most part, we are referring only to federal taxes, with a couple of specifically-noted exceptions. Among the plethora of federal taxes, income taxes are by far the most universally applicable. Nearly all Americans are subject to some kind of income tax; this part of the tax code has been around for more than a century. Congress passed the 16th Amendment to the Constitution, which empowered Congress to tax income, in 1909, and it was ratified by ¾ of the states in 1913.

The federal income tax schedule is progressive up to a certain threshold, above which point it is capped. These are the rates for a single individual in 2019:

Schedule X: Single Individuals

Taxable Income*	Tax	% on Excess
$0	$0	10
9,700	970	12
39,475	4,543	22
84,200	14,382.50	24
160,725	32,748.50	32
204,100	46,628.50	35
510,300	153,798.50	37

Source: Revenue Procedure 2018-57

*Taxable income is equal to gross income minus deductions. The 2019 Standard Deduction for single individuals is $12,200.

Federal income taxes are indexed for inflation, so each year the range of taxable income to which each tax rate applies will increase a little bit.

It's pretty simple to work with these tax rate tables. For example, if a single individual's adjusted gross income in 2019 is $97,500, the federal income tax will be as follows:

$14,382.50 + ($97,500 - $84,200) x 24% = $14,382.50 + $3,192.00 = $17,574.50.

Probably the only thing we can add to this is the point that people frequently refer to their "*tax bracket,*" but what they really mean is their marginal income tax bracket. The single taxpayer earning $97,500 in 2019 is not in an overall (combined) tax bracket of 24%, but rather, he is at a *marginal tax bracket of 24%.* Any *additional income* he earns above the $97,500, at least in theory, will be taxed at 24%, but his *overall tax bracket is actually 18.0 percent.* This consideration can be especially relevant for donors pursuing gift arrangements that involve life income.

The income tax rates for a married couple filing jointly in 2019 are as follows:

Schedule Y-1: Married Filing Jointly and Surviving Spouses

Taxable Income*	Tax	% on Excess
$0	$0	10
19,400	1,940	12
78,950	9,086	22
168,400	28,765	24
321,450	65,497	32
408,200	93,257	35
612,350	164,709.50	37

Source: Revenue Procedure 2018-57

*Taxable income is equal to gross income minus deductions. The 2019 Standard Deduction for married couples filing jointly is $24,400.

The math works the same way as with the single taxpayer above; a couple with income of $144,800 in 2019 will have income tax as follows:

$9,086.00 + ($144,800 - $78,950) x 22% = $9,086.00 + $14,487.00 = $23,573.00

Their overall combined income tax bracket is 16.3% and the marginal income tax bracket is 22%.

[There are also tables for married filing separately and heads of households, but in the interest of time, we'll focus only on these two.]

This is all pretty straightforward, and it would be great if this were all we needed to know about income-related taxes, but if you know anything about taxes, you'll know that nothing about taxes is *ever* that simple. There are many other aspects we could mention, but the most significant is a fairly recent additional tax – on top of standard income tax – known as the 3.8% Net Investment Income Tax (NIIT).

This tax was introduced as part of the Affordable Care Act of 2010, and it is sometimes referred to as the Medicare Surtax. It is not tied directly to the standard income tax brackets, unfortunately, but rather, it is based on the taxpayer's Modified Adjusted Gross Income (MAGI), which is essentially a combination of earned income and investment income (including capital gains).

MAGI threshold for single filers:	$200,000
MAGI threshold for married filing jointly:	$250,000

This means that a single filer would be subject to the NIIT even if he or she wasn't in the top income tax bracket – the $200,000 threshold is in the 32% marginal income tax bracket – *the third highest bracket.* And for married taxpayers filing jointly, the $250,000 threshold falls into the 24% marginal income tax bracket – *the fourth highest bracket.* Unlike the income tax brackets, the NIIT is not indexed for inflation, so the NIIT thresholds will remain the same going forward.

As we said above, the NIIT is an *additional tax* on top of standard income tax, and it is determined by taking 3.8% of the lesser of 1) the total net investment income or 2) the amount by which the taxpayer's MAGI exceeds the applicable threshold. So if a single taxpayer has earned income of $150,000 and investment income of $100,000, the MAGI is $250,000. That is $50,000 above the MAGI threshold for single filers. The 3.8% tax would be assessed on the difference of $50,000 because it is less than the $100,000 in total net investment income.

There are a number of other adjustments to taxable income that are beyond the scope of this presentation, but perhaps we should mention one – the Alternative Minimum Tax (AMT). This tax was originally added to the tax code in 1969 after analysis revealed that 55 millionaires had used existing tax breaks to end up paying nothing in taxes. Initially it was just aimed at the very top of the income scale, but because the original measure was never indexed for inflation, it descended gradually to a point where it hit many middle-income taxpayers. In recent years, the tax has been revised, and it is much less relevant in 2019. That's not to say that some of our donors will not be affected by the AMT, but it's really a niche tax now that requires individual review and tax advice.

2. Umm…The Charitable Deduction Is For The Charitable Gift

It's probably one of the simplest and most basic of all the topics we'll cover. If a U.S. taxpayer makes a direct, immediate, and outright gift to a qualified charitable organization, he or she generally is entitled to deduct the value of that gift from his or her total income for the calendar year. The charitable deduction represents the value of the contribution the individual has made to a not-for-profit organization – albeit one that meets certain criteria in the federal tax laws. This deduction is treated in a manner similar to other deductions, such as those for home mortgage interest, and those for state and / or local taxes (now up to a certain limit). The deductions are used to reduce the amount of income that will be subject to income tax, but – and this is a big but – *they are only financially relevant if the taxpayer chooses to itemize his or her deductions.*

Modern U.S. tax code allows each taxpayer to file a shorter version of the federal income tax return and there is a standard deduction that everyone is entitled to claim. In the Tax Cuts and Jobs Act of 2017, the standard income tax deduction for a single taxpayer was essentially doubled, from $6,350 to $12,000 for calendar year 2018. And in 2019, the standard deduction, which is indexed for inflation, increased to $12,200. *This near doubling of the standard deduction had the potential to stop many taxpayers from continuing to itemize their deductions; if a single taxpayer has deductions adding up to only $9,000, he or she would be foolish to itemize deductions*, because using the standard deduction of $12,200 would reduce his income more and result in a lesser amount of income tax for the year. And if a married couple had deductions adding up to $17,000, they would be much better off to take the standard deduction of $24,400.

After the 2017 Tax Act passed, many in the not-for-profit community speculated that charitable contributions in aggregate would drop precipitously because large numbers of people would no longer have the tax incentive to give, or at least, to give at previous levels. Last year, the Joint Committee on Taxation estimated that about 12% of filers would itemize their deductions in 2018, a drop from 30% in 2017 (final statistics from the IRS on 2018 income taxes are not available yet). It's hard to know if that argument is valid – even when we have precise data on the number of returns that included itemized deductions, there is no sure way to determine how much charitable giving in general declined. *We know that every person who itemized in 2017 and who did not itemize in 2018 was certainly not a regular contributor to charitable causes, and we can't be sure if there is even a direct correlation between fewer itemized returns and lesser amounts of charitable giving.* So, the jury is still out and we may never know the full story.

Suffice it to say that lots of donors are still making lots of charitable contributions. We tend to assume that donors of significant amounts will still choose to itemize their deductions; if a donor has a charitable deduction for $5,000 or $10,000, they are well on their way to having enough combined deductions to warrant itemizing those deductions. But we should be aware that some number of donors will not be able to itemize, or will choose not to itemize, and there may be other adjustments that can be made to emphasize other aspects of the potential gifts they might make.

So, if the charitable contribution begets a charitable income tax deduction, and we proceed on the assumption that donors typically will benefit from charitable deductions, let's talk about the amount of the charitable deduction relevant to the amount the donor is contributing. Many if not all planned giving professionals have received the following question: "Why isn't my charitable deduction for the full gift amount?" It's an innocent question, and we shouldn't be flummoxed by it. Every gift planner should be comfortable explaining that the charitable deduction is for the charitable gift, which is only a portion of the total funding amount in a split-interest gift arrangement.

The charitable gift annuity, the charitable remainder trust, the pooled income fund, and a number of other planned gifts, are complex legal arrangements, whereby the donors make contributions, and charities (eventually) receive benefit, but there are other "parties" who receive benefits right away – the donors get a charitable income tax deduction, and the annuitants or beneficiaries receive payments or free tenancy, usually for life. The IRS categorizes these gift arrangements as "split interest gifts." With a split interest gift, the charitable deduction is a computed value for the portion of the gift arrangement that will go to the not-for-profit organization at the end of the term (lives or years or combination thereof); that amount is called the "charitable remainder" or "residuum."

If the charitable income tax deduction is for the portion of a split interest gift that benefits the charity, what becomes of the difference? When a donor contributes $10,000 to a charity for establishing a charitable gift annuity, and the donor receives a tax deduction of $4,700, how do we account for the other portion – the other $5,300? What happens to that money? This is one of the most important things to understand in all of the planned giving concepts we deal with – anywhere and anytime. The difference between the total original funding amount and the amount of the charitable income tax deduction is the value of the benefit that other parties – other than the charity – receive from the gift arrangement. This is so important it bears repeating in bold print: **The difference between the total original funding amount of a split interest gift, and the amount of the charitable income tax deduction, is the value of the benefit that other parties – other than the charity – receive from the gift arrangement.**

See Appendix 1 for an example of a $10,000 charitable gift annuity funded with cash by a 72-year-old donor.

In the case of the gift annuity mentioned above, based on original principal of $10,000, if the donor receives a charitable income tax deduction for $4,700, then the difference - $5,300 – represents the value of the annuity payments she will receive over her lifetime. There is an official term for this amount with a gift annuity: Investment in Contract. In the case of a CRT or PIF participation, it is known as the value of the life income interest. Computing and understanding this number is as important as coming up with the amount of the charitable deduction, because they are the opposite sides of the same coin, so to speak. The greater the deduction, the less the value of the life interest, and vice versa. So, the donor needs to understand that she is only getting a partial income tax deduction – for a portion of the funding amount – because the difference represents the value of the benefit she is getting back for herself.

But it's actually a little more complicated than that. The charitable deduction and the investment in contract/value of life income interest are based on estimated values in the future, because we can't actually know at this point how much the funding principal will be worth in the future. We don't know if the original principal will increase in value, go down in value, or stay the same. How can anybody know that? If the funding principal is invested in stocks and bonds, there is no way to predict the investment return over the term of the gift arrangement; if the funding principle is in the form or real estate or other property, estimating the future value becomes even more difficult.

We also don't know exactly how much the non-charitable benefit will be in the end, because the payments are made in future years, and the time value of money theory says that a dollar received in the future is worth less than that today. The further into the future we go, the less the future amount is worth in today's dollars.

Given these considerations, how does a charity – and a taxpayer – compute reasonable estimates of the charitable deduction and the value of the non-charitable benefit? We'll see just how in the next section.

3. Playing With The IRS Discount Rate (Did You Hear About The Election Statement? Say What?)

We're probably all aware of the monthly IRS Discount Rate; Also known as the Applicable Federal Rate (AFR), the Charitable Midterm Rate, and the Section 7520 Rate, the IRS Discount Rate is used to determine the charitable deduction for many types of planned gifts, such as charitable remainder trusts and gift annuities. The IRS requires the rate to be used as an estimate of the annual rate of return on the assets in which the gift proceeds are invested.

The discount rate is published monthly, announced on or about the 20th of the month that precedes the month to which the rate will apply. It equals 120% of the annual mid-term rate, rounded to the nearest 0.2%. The annual mid-term rate is the annualized average yield of U.S. Treasury instruments over the past 30 days that have remaining maturities of 3-9 years.

Although there is a specific discount rate for each month, the IRS allows the donor to choose among the three most recently published discount rates for computing the charitable deduction. Typically, the donor will want to use the highest of the last three discount rates in order to get the highest deduction available for funding a charitable gift annuity or charitable remainder trust. There is an exception, however, in the case of gift annuities. If the donor does not itemize deductions on his or her tax return, or if the donor is unable to use the charitable deduction for some other reason, using the lowest IRS discount rate of the last three months will give the donor a slightly higher proportion of tax-free income.

As you can see, there are good reasons why a donor would choose to compute his or her deduction using the IRS discount rate for one of the two months prior to the month of gift. This decision cannot be made, however, simply by the charity running the deduction calculations with an "alternative" discount rate. Rather, the IRS requires a donor to make an *explicit election* in order to claim a charitable deduction that was computed using the IRS discount rate for either of the two months prior to the month of gift. The election must state that a prior-month election under section 7520(a) of the Internal Revenue Code is being made and identify the elected month. (1.7520-2(b)). The election must be attached to the taxpayer's federal income tax return on which the deduction is claimed.

The IRS Discount Rate Election Statement in PG Calc's *Planned Giving Manager* and *PGM Anywhere* contains all the information that the IRS requires to be included. See Appendix 2 for an example.

4. Yes, You *MAY* Carryover, But Only If You *MUST*

Receiving a charitable income tax deduction is a fundamental component of modern-day charitable giving, and we generally believe that this benefit encourages potential donors to make more gifts, and to make larger gifts, than they otherwise would have. As mentioned above, any donor who is filing itemized tax returns and has one or more charitable deductions to claim will see a direct reduction on the amount of taxable income for the year. But there are limitations on the total dollar amount of deductions that can be used in any particular calendar year, relative to the donor's taxable income. Generally speaking, for 2019, the donor may use charitable deductions on cash gifts up to 60% of Adjusted Gross Income. Any deductions that are based on long-term capital gain property gifts may be used up to 30% of the donor's AGI. Gifts of short-term gain property, ordinary income property, and non-appreciated property other than cash may be used up to 50% of the donor's AGI. So, what happens when the donor's deductions for a calendar year exceed those limits? Are the deductions lost forever?

Fortunately not, in most cases. Based on the application of these criteria, if the donor's deductions cannot be completely reported in the years in which the gifts are made, the donor generally has as many as five additional "carryforward" or "carry over" years in which to use the deductions. Charitable deductions used in subsequent years are subject to the same limitations that apply to deductions used in the years of the gifts, i.e. 60%/50%//30%. That's a big help to donors who make substantial charitable gifts in one particular calendar year and are unable to use the deductions completely in that year.

But here's the important point: the donor MAY carry over or carryforward portions of charitable deductions that he or she is unable to use in a given calendar year, but the donor may NOT simply choose to divide up the deductions over the years at his or her discretion; IRS rules require the donor to use the charitable deductions – as much as possible – as soon as possible, within the limitations of the tax code. The donor may not "save" portions of deductions for future years if they could be used completely in the current calendar year.

How the limitations interact: When a donor gives and/or carries forward from prior years deductions for contributions of different kinds of property, application of the different % of AGI limitations can get complicated. For example, cash contributions reduce, dollar for dollar, the limit on 50% deductions taken in the same tax year, whether current gifts or carryforward. They also reduce this 50% overall limit that still applies when considering the 30% limit on gifts of long term appreciated property. The result is that the only way a donor can deduct more than 50% of her AGI in charitable contributions is if the contributions deducted are made entirely with cash.

For example, if a donor has an AGI of $100,000 and makes $40,000 of cash contributions and $20,000 of long-term appreciated property contributions, she can deduct all $40,000 of her cash contributions, but only $10,000 of her long term appreciated property contributions because the 50% limit within which the 30% is applied has been reduced to $10,000 by her $40,000 in cash contributions ($50,000 - $40,000 = $10,000). Her total deductions will be $50,000 and she'll carry forward $10,000 of 30% long term gain contribution.

5. Those Pesky Capital Gains: You Can Run, But You Cannot Hide Forever

Capital gains and the taxes on them represent another very important area of taxation for gift planning professionals. In addition to the taxes we pay on our income, many Americans are subject each year to some kind of capital gains tax. When a taxpayer sells shares of stock for more than they were purchased, for example, the taxpayer is realizing the capital gains (the profit) on the investment. There are federal taxes due on the amount of realized gains – and frequently state taxes due as well. And the general concept is the same for profits made on selling other types of property, too. But the tax rates on those gains vary according to the type of property, how long it was owned, the seller's tax filing status, and the seller's level of taxable income in the current calendar year.

In planned giving discussions, we are usually talking about capital gains – or potential capital gains – on the sales of securities which have been held long-term by the donor (more than 365 days). In general, there are three possible rates for these capital gains – 0%, 15%, and 20% (a 28% rate applies to long term gains realized on the sale of collectibles, such as art or antiques, regardless of taxable income). To be eligible for 0%, the single taxpayer must have taxable income of less than $39,375, and married taxpayers filing jointly must have taxable income of less than $78,750. There are additional numbers for other types of filing status. To be eligible for the 15% rate, the single taxpayer must have taxable income in the range of $39,375 to $434,500, and married filing jointly must have taxable income in the range of $78,750 to $488,850. For the top rate of 20%, single filers must have income above $434,550; married filing jointly must have income above $488,850.

Capital gains taxes on securities held fewer than 365 days, and capital gains taxes on other types of appreciated property, are typically higher than these rates. It also should be noted that taxes on capital gain will include the 3.8% net investment income tax when the sellers MAGI exceeds the applicable threshold. This tax is likely to apply to sellers in the 20% capital gain tax bracket, which would increase their effective rate to 23.8%. Establishing life income gift arrangements with long-term appreciated assets typically allows for a reduction in the amount of capital gains that must be reported, and in many cases, the taxation on those gains may be delayed over time, but the capital gains themselves will not be completely eliminated. With a gift annuity, the donor transfers appreciated securities to the charity, and the charity takes on the donor's cost basis and acquisition date. The charity will sell the stock and realize capital gains, but the charity won't pay tax on the capital gains, due to its not-for-profit status as an organization. But the capital gains do not simply disappear; there is a portion of the capital gains that will be forgiven, and there is a portion that will be reported and taxed – hence the term "reportable capital gains."

If the donor is also the annuitant (or the first of two annuitants), the IRS allows for the reportable capital gains to be allocated ratably over the donor's expected lifetime. This is based on a mortality table specified by the federal government, currently the 2000 CM mortality table. The result is that the amount of capital gains on which the donor will be taxed is significantly reduced and significantly delayed. Both of these aspects represent a lesser tax, because according to the time value of money theory, any tax deferred is a tax reduced.

See Appendix 3 for an example of a charitable gift annuity with capital gains.

While the tax rules for charitable remainder trusts are markedly different from those for CGAs, the basic concept is the same; by transferring long-term appreciated assets to the CRT, the donor avoids immediate taxation on the total amount of capital gains, but the capital gains are by no means forgiven and forgotten. Similar to the CGA, with the trust, the donor will be taxed on a significant portion of those capital gains over his or her lifetime, or over the term of years for the trust. The total tax is reduced, and it is also delayed, but the donor does not completely walk away from the long-term gains associated with the property.

It's important for the gift planning professional to be confident about these *dynamics; using appreciated property to establish the life income gift arrangement will only relieve the donor from a portion of the long-term capital gains.* The only exceptions are with contributions to life income gifts that pay only net earned income – a Net Income Unitrust (including Net Income with Makeup), or a traditional Pooled Income Fund. Only in those cases can the donor completely walk away from the long-term capital gains, because those vehicles never make beneficiary distributions that include portions of principal.

6. The Donor Must Be The Owner (And 2 Donors = 2 Owners)

This question comes up surprisingly often, especially with charitable gift annuities. We hear from clients who are working with married couples interested in establishing two-life CGAs, either with payments starting right away, or at some time in the future. As we explained in the previous section, the capital gains inherent in the funding property is not completely forgiven; a significant portion of the capital gain will be reportable as part of the creation of the gift annuity. With a one-life gift annuity, when the donor is also the annuitant or first annuitant, the reportable capital gains will be allocated ratably over the donor's life expectancy, thereby reducing and delaying the tax on the reportable gains.

But what happens if the donor is not the annuitant? Do all of the capital gains have to be reported in that case? If so, when do they have to be reported? The answer to the first question is "no" – the donor still benefits from the permanent forgiving of a portion of the capital gains – the gift annuity is a split-interest gift, and one of the interests is a charitable organization. The capital gains associated with the charitable gift portion of the arrangement are permanently forgiven. But the answer to the second question is "right away," or more precisely, in the year of the gift transaction. The capital gains associated with the non-charitable portion of the gift annuity arrangement are reportable and taxable for the calendar year in which the CGA was established.

See Appendix 4 for an example of that situation.

Note: There is another area of concern when the donor is not the annuitant, but that will be addressed later in the presentation.

What happens when there are two annuitants? Are the reportable gains allocated ratably over both life expectancies? Not necessarily – the reportable gains will only be allocated ratably over the combined life expectancies if each annuitant is also a donor. If only one of the annuitants is a donor, the reportable gains can only be allocated ratably over his or her life expectancy. If the donor wants the reportable capital gains to be allocated ratably over his or her life expectancy, that donor must be named as the first annuitant. The other spouse may be named as the second (successor) annuitant, but if the spouses are named as joint annuitants, the gift arrangement becomes much more complicated. In that situation, the charity needs to run 2 separate gift calculations – one for the 50% of the gift annuity wherein the donor will be the annuitant, and one for the 50% of the arrangement wherein the donor is not the annuitant. The arrangement may be written as one gift annuity, with one contract, but the calculations must be run separately up front.

7. The Long-Term Automatic DRIP: A Tax Accounting Nightmare for Life Income Gifts

Many Americans own mutual funds or other types of investments that incorporate an automatic reinvestment of the dividends. In theory this is a great concept – it's the basic time-worn story of accumulation and reinvestment. The dividend stream for most investments is relatively modest, and the owner doesn't really feel the absence if it is held by the sponsoring company for reinvestment. Over long periods of time, the slow-and-steady dividend reinvestment results in significant compounding, and after 10 or 20 years, the owner holds an asset that has increased significantly in value. But that's the good news.

The bad news is the tax accounting side of things. Every time the dividend is reinvested, the purchase of additional shares creates a new "tax lot." A tax lot is a specific purchase of shares or units at a specific time for a specific price. Since our tax system differentiates between short-term capital gains and long-term capital gains, the investor needs to have a detailed record of when each tax lot was acquired and how much it was acquired for.

A simple example would be an investor purchasing 100 shares of ABC Corp @ $10 per share on May 5, 2017. The initial purchase creates a tax lot of 100 shares, with a tax cost of $1,000. Then the company pays a dividend on July 1, let's say, $1 per share. The owner receives $100 in the form of dividends, at least from a tax perspective; but the donor doesn't actually receive the money, rather, he instructs the company to reinvest in additional shares. Let's say the stock price hasn't changed (to keep the math as simple as possible!) – so the $100 will purchase 10 additional shares of stock. This is a new tax lot: 10 shares of stock with an acquisition date of 7/1/2017 and a cost basis of $100. If the donor sells the entire holding of ABC Corp stock a full year later, he will be selling both lots, and (hopefully) realizing long-term capital gains on both of the individual tax lots.

Even though the sale price for the stock will be the same for all 110 shares, there is a different calculation for each tax lot. And in the real world, this becomes a lot more complicated for investments that have automatic DRIP arrangements over long periods of time. If an investor holds a mutual fund for 10 years, and the mutual fund pays quarterly dividends that are automatically reinvested each time, the investor will have 41 tax lots at the end of the timeframe – the original tax lot plus 40 additional tax lots created by the automatic DRIP over 10 years.

In some cases, the mutual fund company – or whoever the sponsoring company is – will maintain thorough records of every reinvestment, and at the end of the holding period, will be able to produce a detailed tax accounting for the owner's entire holding of the investment. This information is critically important when the owner decides to sell his holdings, or when he decides to transfer the investment to a not-for-profit organization for the purpose of establishing a gift annuity or CRT.

The tax accounting for the CGA requires the full tax accounting of the donor's history of the investment in order to compute the amount of reportable gain; that only makes sense – in order to calculate the reportable portion, the charity has to know the total gain built up over all the years. And with a CRT, the tax information is needed for the trust's annual tax accounting and reporting; the amount of capital gain realized inside the trust will affect how the beneficiary distributions are categorized for tax purposes.

But not all donors have this tax accounting information, nor do they have any idea how to obtain it. We see many situations where donors are completely taken aback by the charity's request for the information, especially in cases where the investment was purchased through a broker or some other investment agent. This can become an extremely difficult and contentious issue with donors – they protest that the charity shouldn't need the information because they are making a charitable gift with the investment. The gift officer needs to remind the donor gently but firmly that a gift annuity or CRT contribution is not an outright gift; the establishment of a life income gift is a split-interest gift arrangement, and only a portion of it is for the benefit of the charity. The portion that is for the benefit of the non-charitable party or parties is subject to bargain sale rules in the tax code; the charity must compute the entire amount of capital gains in order to compute the reportable portion.

When all efforts fail and the donor and charity are at an impasse, the only solution is to assume a zero cost basis. This may come as a shock to some, but there is no other option. Assuming anything for a cost basis risks the chance of overstating the cost basis; if the donor and charity overstate the cost basis, they are thereby understating the amount of capital gains. Anytime a taxpayer or charity under-reports the amount of capital gains, they are in serious violation of tax laws and the penalties could be significant. In particular, a charity may see its non-profit status in jeopardy. Clearly not a chance worth taking.

PG Calc published an article a few years ago discussing the complexities of establishing life income gifts with mutual funds. Here is the link to the article: https://www.pgcalc.com/support/knowledge-base/pg-calc-feature-articles/funding-cgas-with-mutual-funds

8. No Good Deed Goes Unpunished: When The Donor Is Not The Annuitant or Beneficiary

In some situations, the prospective donor of a life income gift arrangement may not be interested in payments for himself or herself, but rather, in payments for some other person or persons. The donor may be looking to provide a lifetime stream of income to a former employee, for example, or for a member of the family who has special needs. Sometimes parents set up life income gifts for the benefit of their adult children, and other times, it's the grown children setting up gifts for the benefit of their parents. Whatever the circumstances, the overall process is essentially the same: the donor receives a charitable income tax deduction for a portion of the funding amount, specifically for the estimated value of the future remainder going to charity, which is discounted back to present value.

But there are other aspects to such an arrangement that the gift planner should point out. One important detail is when the donor establishes a charitable gift annuity for the benefit of another person, and the arrangement is funded with appreciated securities. We mentioned this above and pointed out that the reportable capital gains must be taxed in the year of the gift transaction; the reportable gains cannot be allocated ratably over the lifetime of the annuitant, because the annuitant is not the donor. So, in that case, the donor would have to pay capital gains tax on the reportable gains in the year of the gift transaction. If the gift annuity is funded with cash, on the other hand, there are no capital gains to be reported, therefore, the donor doesn't have to pay any tax on capital gains upon the establishment of the gift plan.

There is another area of concern, when the donor is not the annuitant or beneficiary, which is the potential exposure to an entirely different type of taxation under our tax laws: the transfer tax. This tax has nothing to do with income or capital gains, but rather, it is a tax levied on the transfer of wealth from one individual to another. There are three flavors of transfer tax: Gift Tax, Estate Tax, and Generation-Skipping Transfer Tax (or GST Tax). Gift tax is assessed on transfers of wealth between two living persons, estate tax is levied on transfers of wealth between a deceased person (the estate thereof) and a living person; and GST Tax is an additional transfer tax taken on top of either of the other two transfer taxes, for certain transfers of wealth to persons who are deemed to be of a skip-generation.

We're going to limit our discussion here to the Gift Tax, and we'll return to the other two transfer taxes a bit later. Gift Tax can be a very costly tax – the federal gift tax rates are progressive, and ultimately reach a maximum rate of 40%. Most individuals, however, never have to worry about gift tax, because there is a generous exemption amount available to every American taxpayer preventing its application in most cases. There is a lifetime exclusion in the form of a tax credit, which translates into a dollar amount; for 2019, the exclusion equivalent amount that can be transferred by a living person to others over a lifetime without incurring gift tax is $11,400,000. That is why most Americans never have to give it a thought.

In past years, the exclusion equivalent amounts were much lower – as little as $675,000 in 2000, for example, which meant that even some middle-class Americans were theoretically subject to the tax. But a series of major Tax Acts between 2001 and 2017 ramped up the exclusion equivalent amounts, bringing us to where we are today. In addition to the generous lifetime exclusion equivalent amount (which is indexed upward for inflation each year), there are also other ways to avoid gift tax. The most well-known approach is to make use of the Annual Gift Tax Exclusion. This is a dollar amount threshold – $15,000 for 2019 – up to which anyone can transfer money or property to any person, or number of persons, and avoid any inclusion in potential gift tax calculations.

It is the Annual Gift Tax Exclusion that is most likely to come up in gift planning discussions wherein the annuitant or beneficiary will be someone other than the donor. When the donor conveys to the charity that he or she is interested in establishing a life income gift arrangement that would benefit someone else, the gift planning professional should immediately raise a cautionary flag. It is never up to the gift planner to determine (or even estimate) how much gift tax the donor might be subject to, but it is incumbent upon the gift planner to alert the donor of potential exposure to gift taxes.

Here's how it might play out. In the example we've used above, the charitable gift annuity established for a 72-year-old with $10,000 in cash yields the donor a charitable tax deduction of $3,996.90; this would be the donor's charitable deduction regardless of whether or not the donor were to be the annuitant. But here is where we need to look at the investment in contract number that we discussed earlier – if the deduction is 3,996.90, then the investment in contract is $6,003.10. The latter figure is the value of the portion of the gift annuity arrangement that benefits the party other than the charity; in this case, if the donor were establishing a CGA for his 72-year-old sister, the value of the benefit being given to the sister is $6,003.10.

The gift of $6,003.10 represents a potentially taxable transfer for the donor. Hopefully, he has already been in consultation with his tax advisor, and he is already aware of the potential gift tax consequences. But it is unconscionable for the gift planner not to point out the possibility of gift tax; the gift planner has an obligation to point out the investment in contract amount as the value of the benefit being transferred from the brother to the sister. This next part was mentioned above but bears repeating: it is never the responsibility of the gift planning professional to determine or even estimate the amount of gift tax that might result from a life income gift set up by one person for another person's benefit; that is way beyond the scope of the gift planning process and it is a dangerous area for the gift planner to enter. But it is absolutely the responsibility of the gift planning professional to point out the amount of the non-charitable benefit and to alert the donor to the possibility of gift tax consequences.

In most cases, the donor will already know that he or she has some or all of the $11,000,000+ lifetime transfer tax exclusion available; and even if the donor doesn't want to use the lifetime exclusion, in many cases, the amount of the non-charitable benefit will be under the Annual Gift Tax Exclusion of $15,000. In our example, the value of the annuity itself is approximately $6,000, which is way below the annual exclusion. But in a few cases, especially if the gift amount is significant larger, the donor and his or tax advisors will need to consider this potential taxable gift in conjunction with other gifts being made in this calendar year, as well as in the donor's entire lifetime. There are cases where the establishment of a gift arrangement for another individual can cost the donor tens of thousands – even hundreds of thousands or millions – in actual gift taxes.

It is absolutely incumbent upon the gift planner to have enough basic familiarity with the various aspects of gift taxes to point out that the donor could be incurring serious additional costs in the form of gift taxes by establishing a gift annuity or CRT for the benefit of another person. As they say in old New England, "No Good Deed Goes Unpunished" – it can indeed cost money to give money away.

For charitable remainder trusts, there is no investment in contract, as there is with CGAs, but instead, there is a calculation that can be done to compute the value of the life interest being established for another person. See Appendix 5 for an example of this calculation.

9. CRTs and Taxation: What You Really Need To Know

Speaking of charitable remainder trusts, there is a certain amount of confusion and trepidation in the planned giving community about understanding the tax aspects of these gift options. Some people get frightened when hearing about the "Tax Tiers of CRTs" or "The Four Tiers of CRT Taxation," etc. Far too many professionals have sat through oh-so-dry presentations of the topic and come away feeling as unsure as they were before. Let's have a brief walk through now to try to make the subject more palatable.

First, we'll start by defining a CRT. A charitable remainder trust, first and foremost, is a trust; it is *not* a contract like a gift annuity agreement. A trust requires a Trustee, who is legally responsible for the operation of the trust. The donor establishes the CRT, hopefully with the able guidance of an attorney who is familiar with CRTs. The donor receives a charitable income tax deduction for the portion of the original principal funding amount that is deemed to be the value of the ultimate benefit for the remainder charity or charities.

The Trustee or one or more other designation parties are responsible for investing the assets, disbursing the periodic beneficiary distributions, and filing the annual tax return(s). The annual distribution amount (which is typically disbursed in quarterly installments) is determined by multiplying a percentage payout (usually 5%) either by the value of the original principal funding, or by the value of the assets at the beginning of the current calendar year.

It is in dealing with the taxation of the beneficiary distributions that many people experience difficulty. The most important thing to remember is that each CRT is a distinct legal entity; each CRT has its own tax identification number, which is used to file one or more annual tax returns summarizing the activity in the trust. The distinction between the CGA and the CRT is that in the former case, the tax categorization of the beneficiary payments is pre-determined; upon the establish of the gift annuity, the calculations include determining the overall ratio that will define the tax reporting for the payments (called the Exclusion Ratio).

The amounts of tax-free income and capital gains distributions from a CGA are determined in these initial calculations; the only changes, at some point in time, will be upon the annuitant(s) reaching the end of the originally-estimated life expectancy. Beyond that point, the beneficiary payments will become ordinary income for as long as the annuitants are alive and receive the payments.

In the case of the CRT, the Trustee – or more realistically, the tax accountant for the Trustee – must go through an extensive tax accounting process upon the completion of each calendar year, in order to determine the tax categorization for the total amount distributed to the beneficiary during the calendar year just ended. There used to be just 4 categories – hence the expression “The 4 Tax Tiers of CRTs” – but legislation in recent years has increased the number of categories to 7 or 8, depending on how you count them.

Some gift planning professionals spend considerable energy trying to estimate how the payments of a potential trust will be broken down for tax reporting purposes. It takes a certain level of familiarity with tax accounting concepts to talk comfortably with donors about possible variations depending on the types of property donated to establish the trust and the investment assumptions for the ongoing operation of a trust over many years.

Here is what every gift planner should know: the taxation of beneficiary payments from a CRT depend on a combination of the funding assets and the investment activities in the trust. In making the distributions to the beneficiary, the trust is always going to distribute ordinary income first – dividends from stocks and interest from bonds flow through the trust and make up part of the beneficiary payments. Bond income will be taxed at the beneficiary’s highest income tax bracket (the marginal income tax bracket mentioned above), but dividends from stocks that trade on a public U.S. exchange, such as the New York Stock Exchange or NASDAQ, are taxed at the lower capital gains tax rates.

If a trust is funded with highly appreciated long-term assets, generally speaking, the assets will be sold in the first calendar year, and the trust will realize the long-term capital gains. The trust is not taxable – we should always remember that – but the distributions to the beneficiary are almost always taxable. The ordinary income earned is distributed first; nothing gets in the way of that, because it’s generally the highest revenue for the IRS. But after the ordinary income is distributed, the capital gains are distributed, for the difference between the total distribution and the ordinary income portion.

Once capital gains occur in a CRT, they almost always remain in the trust for the duration of the trust. Gains resulting from original funding property may be eventually distributed, but typically, there are new gains being realized continuously as a result of ongoing investment activity. So, the beneficiary distributions from CRTs are generally a combination of ordinary income and capital gains distributions. The only other significant category is that of tax-free income.

It is nearly impossible for a CRT to distribute tax-free income because the generation of ordinary income each year and the accumulation of realized gains in the trust essentially block the distribution of tax-free income or pure return of principal (which is also tax-free). Occasionally we’ll see an exception to this rule: when the CRT is funded with cash, or tax-free securities (e.g. municipal bonds), there are no gains in the trust at the beginning.

And if the trust portfolio is managed in a particular way (tax-free investments or an extremely tax-sensitive investment approach), the trust can remain clear or almost clear of realized gains.

But this approach is extremely rare because in this case the Trustee (and investment manager) can be held responsible for not fulfilling her fiduciary duty to balance the interests of the current and future beneficiaries. If the investments are skewed to avoid taxable income now, the investment return likely is compromised, which hurts the interest of the remainder beneficiary. This is why, in general, gift planning professionals should advise donors considering establishing CRTs that they should not expect any significant amount of tax-free income from the trust.

While they're at it, they should mention that the annual tax accounting process, which is necessary to prepare the annual tax return(s), is typically not completed until sometime in March. Donors of CRTs (along with participants of pooled income funds) often become frustrated with not getting their Schedule K-1s, which report the tax character of their CRT payments for the year, until late in the tax season; they confuse the K-1s with 1099 forms, such as the 1099-R that reports the tax character of CGA income, which must be sent by the end of January. The official deadline for the annual tax returns and the K-1 forms is April 15. However, most trustees and accountants try to complete the process by mid-to-late March.

10. Seriously, Her Problem Is That She Has Too Much Money! (Transfer Taxes, Lead Trusts, And How You Can't Tax Nothing)

Is it ludicrous to suggest that having too much money can be a problem? Well, we're being a little silly, but there are significant burdens to managing wealth under our tax system. This is probably one of the most confusing and least understood areas of taxation that gift planners encounter. We touched briefly upon transfer tax in a previous section, when we talked about gift tax, but we need to delve a little deeper into the broader subject to help everyone to understand the basics.

First, only the very wealthy need to be concerned about Transfer Tax, be it Gift Tax, Estate Tax, GST Tax, or a combination thereof. There is a lifetime exclusion amount for Gift Tax (in 2019, it is $11,400,000 for single individuals and $22,800,000 for married couples). That lifetime exclusion, however, also applies to Estate Tax and GST Tax. For single persons dying in 2019, their lifetime transfers of wealth, along with the transfers of wealth that occur upon their deaths, must exceed $11,400,000 in order for any Estate Tax to be assessed.

And in many cases, the person dying in 2019 will be able to use some or all of the predeceased spouse's lifetime exclusion amount. This "portability" of unused lifetime exclusion from a deceased spouse to a surviving spouse has been available since 2011. This means that the estate of a person dying in 2019, who is a surviving spouse, may not owe any gift or estate tax if the couple's lifetime and testamentary transfers of wealth do not exceed $22,800,000. And if the transfers were made to skip-generation persons, the same $22,800,000 threshold would apply. The is hugely significant, and it means that almost every American avoids any exposure to any kind of transfer tax, either during life or at death. (Note, however, that portability does not apply to the GST tax.)

Planned giving donors, however, constitute a unique community; many of them are not wealthy – in fact, some planned gifts are especially popular among the taxpayers who are in the middle brackets of the income tax schedules. But there are a small number of planned giving donors who are in fact quite wealthy, and we don't necessarily know who they are. We need to work with all potential donors assuming that they might be highly affluent; we should always take care to point out benefits and consequences that would be relevant to persons in the top levels of income and wealth.

As mentioned above, the gift planner should never attempt to estimate how much gift tax a donor will owe for establishing a particular life income arrangement; this is beyond the area of responsibility for a representative of the charity, and it is – without question – purely the responsibility of the donor's tax advisors to estimate *any kind of transfer tax.* Having said that, it is the responsibility of the gift planner to point out the possibility of gift or estate tax consequences, and to quantify whatever numbers are possible to aid the donor in the decision-making process.

The most typical way in which gift planners are pulled into the transfer tax discussion with donors is the area of charitable lead trusts. CLTs are sort of the opposite of CRTs – with a CLT, the trust makes distributions to the charitable organization right away, typically in annual payments. In this way, the charitable interest is the lead interest – it comes first – hence the name charitable lead trust. The non-charitable party – either the donor or one or more other persons – receives the remainder of the trust corpus at the end of the trust term. Like CRTs, lead trusts can be for a person's life or for a term of years, but in reality they are almost always written for a specific term of years.

So, the CLT is a split interest gift arrangement that in some ways is like the CRT, only the parties benefit in the opposite order. Another difference, however, is that they are not tax-exempt trusts, and there isn't necessarily an income tax deduction for the establishment of one. When a donor or an advisor inquires about a possible lead trust, it is critically important to ask a central question up front – are they thinking of a grantor lead trust, or a non-grantor lead trust. The answer makes a huge difference.

The grantor CLT operates with annual distributions going to one or more charitable organizations, but the remainder of the trust corpus distributes back to the grantor (donor). With a grantor CLT, the donor receives an income tax deduction up front for establishing the trust (based on the estimated value of the total benefit to charity, discounted back to present value), but the income earned on the assets in the trust is fully taxable to the donor over the years of operation of the trust. The upfront charitable deduction can be significant, but the amount of income earned – and the resulting income tax – is not necessarily insignificant.

With the non-grantor CLT, the annual distributions go to one or more charitable organizations, but the remainder of the corpus go to other individuals, not the donor. While the mechanics are similar to the grantor CLT, the tax consequences are dramatically different. Typically, there is no income tax deduction, but rather, there is a transfer tax deduction for the estimated value of the long-term charitable benefit, discounted to present value. The income earned in the trust may or may not be taxed; if the earned income (which includes realized capital gains) is less than or equal to the amount distributed to charity, the trust has no taxable income and pays no tax. But if the combined income and realized gains exceed the total distributed to charity, the trust will be taxed on the difference – the excess.

There are reasons for doing each type of lead trust, but we won't get into that level of detail. The important thing to know about lead trusts as they relate to planned giving is that the charitable deduction – be it for income tax or transfer tax – can be significantly proportional to the overall amount being transferred. If a donor sets up a lead trust with $10 million, and the computed charitable deduction is $8 million, that means the donor's estate will only have to include the difference - $2 million – in the computation of assets subject to estate tax.

The trick is to make it look like the assets in the lead trust will dwindle over the years if its investment return matches the IRS discount rate – that the principal will be severely eroded or even wiped out. In this case, the donor will only be taxed for the portion of the trust that is projected (estimated) to remain at the conclusion – the money that will go to the heirs. If the deduction calculations show that the principal will be completely exhausted and there will be nothing left in the trust for the heirs, the entire funding amount will be deemed as the value of the benefit for the charity, and the entire $10 million will escape any kind of gift or estate tax.

We go through an extensive example of how to calculate estate tax and the benefits of using a charitable lead trust in Appendix 6.

11. Maybe It's Not The Federal Estate Tax We Should Be Worried About

As we've seen above, federal transfer taxes only apply to a tiny fraction of the U.S. population, and even for those persons, there are clever ways to make gifts to charity and at the same time, greatly reduce or even eliminate any potential taxes. But there are other taxes besides those assessed by the federal government. Most states and other legal jurisdictions have some form of income tax, and a fair number of states - and at least one other jurisdiction - have their own estate taxes. There is far too much information on this topic to cover in the scope of this presentation, but Appendix 8 shows a list of those states and jurisdictions, along with the rates of taxation. It's easy to see how an estate that's well under the federal threshold of $11,400,000 might result in significant estate taxes assessed by the state or other jurisdiction.

As we said in previous sections, the gift planning professional should never estimate the amount of gift tax or estate tax a particular donor might be subject to; the gift planner should only know enough to point out that a gift annuity, or a CRT, or a CLT, includes aspects that may result in subjecting the donor to some kind of transfer tax. The responsibility is to flag the possibility and compute any numbers that are relevant and not subjective; the rest is up to the donor's tax accountant.

See Appendix 7 for a list of states and other federal jurisdictions that impose estate or death taxes.

12. Does She Or Doesn't She? Only Her Tax Advisor Knows For Sure…

There is one more tax aspect of planned giving that we want to cover, and in a way, it's more significant than any of the other areas. The biggest challenge in trying to help the prospective donor in coming up with the most beneficial and most tax-efficient gift plan is that the gift planning professional simply doesn't know very much about the donor's personal tax situation – and likely never will.

Here's an example: Does she or doesn't she file a federal income tax return with itemized deductions? It's a highly relevant question in the wake of the Tax Cuts and Jobs Act of 2017. Does she or doesn't she know the cost basis of the stock she wants to use to establish a charitable gift annuity? No one else can ever really be sure of that information. And if she is at the top level of wealth, has she – or hasn't she – used up any of her $11,400,000 lifetime exclusion amount from taxable transfers? As we explained above, it's critically important to know if there is any exclusion amount left; there is no point in demonstrating how to "zero out the tax" on a charitable lead trust if there wouldn't be any gift or estate tax in the first place.

But herein lies the challenge – only the donor – and her tax advisor – truly know the answers to questions like these. The gift planning professional has to toe a very fine line to avoid giving tax advice or making recommendations that would NOT be most beneficial to the donor at hand. We will never be able to gather all of the relevant information that a donor's tax advisor would be privy to. So what's the solution? Ideally, we would get the donor's tax advisor to be part of the conversation, but that tends not to be possible in most situations. Instead, we do the best we can without them. We learn as much as we can about generally how things work, and we make carefully qualified comments. And we always include the caveat that the donor should consult with his or her tax advisor on any matters of taxation. We're all trying to help these individuals make the best decisions about their income and wealth, in ways that benefit both the individuals and the non-profit organizations. In order to achieve the most successful outcomes possible in our planned giving endeavors, we need to know what we don't know as much as we need to know all of the other stuff.

Conclusion

In the final analysis, we should mention that none of what we've covered is cast in stone. Tax laws are always changing, sometimes dramatically with the direction of the latest political winds. We don't envision the overall tax structure in the U.S. changing anytime soon, but there will be major adjustments to certain portions of the tax code, for sure. Income tax rates have been lowered in recent years, especially for certain groups of taxpayers, and transfer tax exclusion amounts have been ratcheted up dramatically. The pendulum seems to swing back and forth over time, so we wouldn't be surprised if there were reactionary measures in future years that take these taxes in the opposite direction. There has also been some interest at the national level in making changes to the way not-for-profit organizations benefit from the current tax code. Anything is possible. For now, we need to work with donors by first, listening to them, and then by drawing upon all of the information we know at this point.

We hope this presentation has been helpful. We encourage you to contact us with any questions you have, or if you would like to discuss any of these topics in greater detail.

Thank you for your time and attention. We wish you the best in all of your planned giving endeavors.

Jeffrey Frye
Senior Client Services Advisor

Appendix 1

THE CHARITY

Prepared for:
The Donor
August 24, 2019

Summary of Benefits — ESTIMATES

5.8% Charitable Gift Annuity

ASSUMPTIONS:

Annuitant	[5/1/1947] 72
Date of Gift	8/29/2019
Cash Donated	$10,000.00
Payout Rate from ACGA2018 Table	5.8%
Payment Schedule	quarterly at end

BENEFITS:

Charitable Deduction	**$3,996.90**
Annuity	**$580.00**
Tax-free Portion	$414.12
Ordinary Income	$165.88

After 14.5 years, the entire annuity becomes ordinary income.

The charitable deduction displayed above is based on an IRS discount rate for a month prior to the month of gift. To take your deduction based on this rate, you must specify it in an election statement that you file with your tax return.

Basic Gift Illustrations
Prepared by: Jeffrey Frye — IRS Discount Rate is 2.8%

These calculations are for illustration purposes only and should not be considered legal, accounting, or other professional advice. Your actual benefits may vary depending on several factors, including the timing of your gift.

THE CHARITY

Prepared for:
The Donor
August 24, 2019

Taxation of Gift Annuity Payments ESTIMATES

5.8% Charitable Gift Annuity

ASSUMPTIONS:

Annuitant	[5/1/1947] 72
Date of Gift	8/29/2019
Cash Donated	$10,000.00
Payout Rate from ACGA2018 Table	5.8%
Payment Schedule	quarterly at end

CALCULATIONS:

Charitable Deduction	$3,996.90
Number of Payments in First Year	2
Days in First Quarterly Period (7/1/2019 to 9/30/2019)	92
Days of Payment Credit in First Quarterly Period (8/29/2019 to 9/30/2019)	33
Annuity	$580.00
Quarterly Payment	$145.00
First Partial Payment on 9/30/2019 (33/92 x $145.00)	$52.01

BREAKDOWN OF ANNUITY:

	Tax-free Portion	Ordinary Income	Total Annuity
2019 to 2019	140.67	56.34	197.01
2020 to 2033	414.12	165.88	580.00
2034 to 2034	64.75	515.25	580.00
2035 onward	0.00	580.00	580.00

After 14.5 years, the entire annuity becomes ordinary income.

The charitable deduction displayed above is based on an IRS discount rate for a month prior to the month of gift. To take your deduction based on this rate, you must specify it in an election statement that you file with your tax return.

Basic Gift Illustrations
Prepared by: Jeffrey Frye IRS Discount Rate is 2.8%

These calculations are for illustration purposes only and should not be considered legal, accounting, or other professional advice. Your actual benefits may vary depending on several factors, including the timing of your gift.

THE CHARITY

Prepared for:
The Donor
August 24, 2019

Actuarial Calculations — ESTIMATES

5.8% Charitable Gift Annuity

ASSUMPTIONS:

[1]	Annuitant		[5/1/1947] 72
	Date of Gift		8/29/2019
[2]	Cash Donated		$10,000.00
[3]	Payout Rate from ACGA2018 Table		5.8%
[4]	Payment Schedule		quarterly at end
[5]	Discount Rate under IRC Section 7520(a) for 6/2019		2.8%

CALCULATIONS:

[6]	Annuity ([2] x [3])		$580.00
[7]	[a]	Value of $1 for age on [1], rate on [5] (Table S in IRS Publication 1457 (5-2009))	10.2436
	[b]	Adjustment for schedule on [4], rate on [5] (Table K in IRS Publication 1457 (5-2009))	1.0104
	[c]	Adj. Value of $1 ([7a] x [7b])	10.3502
[8]	Investment in Contract ([6] x [7c])		$6,003.10
[9]	**CHARITABLE DEDUCTION** ([2] - [8])		**$3,996.90**
[10]	[a]	Expected Return for age on [1] (Table V in Reg. 1.72-9)	14.6
	[b]	Adjustment for payment schedule on [4] (Reg. 1.72-5(a)(2)(i))	-0.1
	[c]	Expected Return per $1 ([10a] + [10b])	14.5
[11]	Expected Return ([6] x [10c])		$8,410.00
[12]	Exclusion Ratio ([8] / [11]) (Regs. 1.72-4, 1.1011-2(c) Example (8))		0.714

The charitable deduction displayed above is based on an IRS discount rate for a month prior to the month of gift. To take your deduction based on this rate, you must specify it in an election statement that you file with your tax return.

Prepared by: Jeffrey Frye — Basic Gift Illustrations

These calculations are for illustration purposes only and should not be considered legal, accounting, or other professional advice. Your actual benefits may vary depending on several factors, including the timing of your gift.

Appendix 2

Election Statement from Planned Giving Manager

Applicable Mid-Term Rate Election
Charitable Gift Annuity

Donor Name: Joe Donor
Taxpayer ID: 12-3456789

According to Reg. Sec. 301.9100-8(a)(1), I, Joe Donor, am making an election as provided under Section 7520(a) of the Internal Revenue Code.

The interest being valued is a charitable gift annuity agreement with State University made on November 30, 2017. The payout rate of the gift is 4.5%, payable for the lifetime benefit of an individual, age 62.

To value the transferred interest, I elect to use the 2.2% rate under Section 7520 for October, 2017 (120% of the Applicable Mid-Term Federal Interest Rate compounded annually and rounded to the nearest two-tenths of one percent).

Instructions to Donor

You are receiving the above election statement because the IRS discount rate used to compute the value of your charitable contribution was based on a rate for one of the two months prior to the month of your gift.

The IRS requires a planned gift donor to make an explicit election in the event that the value of the donor's charitable contribution was computed using the IRS discount rate for either of the two months prior to the month of gift. The month of your gift is November, 2017 and the IRS discount rate used to compute the value of your charitable contribution is for October, 2017.

You must attach the election statement to your federal income tax return for the tax year in which you claim your income tax charitable deduction for this gift. You should provide your tax preparer with a copy of this election statement.

If you are filing your federal income tax return electronically and are also filing a Form 8283, Noncash Charitable Contributions, you can submit this election statement separately on paper as an attachment to the Form 8283 by using a Form 8453, U.S. Individual Income Tax Transmittal for an IRS *e-file* Return. Otherwise, you will have to file your entire tax return on paper in order to attach this election statement. Please consult your tax preparer for guidance.

Appendix 3

THE CHARITY

Prepared for:
The Donor
August 24, 2019

Summary of Benefits — ESTIMATES

5.8% Charitable Gift Annuity

ASSUMPTIONS:

Annuitant	[5/1/1947] 72
Date of Gift	8/29/2019
Principal Donated	$10,000.00
Cost Basis of Property	$3,000.00
Payout Rate from ACGA2018 Table	5.8%
Payment Schedule	quarterly at end

BENEFITS:

Charitable Deduction	**$3,996.90**
Annuity	**$580.00**
Tax-free Portion	$124.23
Capital Gain Income	$289.89
Ordinary Income	$165.88

Total reportable capital gain of $4,202.17 must be reported over 14.5 years (donor age 72 is primary annuitant).

After 14.5 years, the entire annuity becomes ordinary income.

The charitable deduction displayed above is based on an IRS discount rate for a month prior to the month of gift. To take your deduction based on this rate, you must specify it in an election statement that you file with your tax return.

Basic Gift Illustrations
Prepared by: Jeffrey Frye — IRS Discount Rate is 2.8%

These calculations are for illustration purposes only and should not be considered legal, accounting, or other professional advice. Your actual benefits may vary depending on several factors, including the timing of your gift.

THE CHARITY

Prepared for:
The Donor
August 24, 2019

Taxation of Gift Annuity Payments ESTIMATES

5.8% Charitable Gift Annuity

ASSUMPTIONS:

Annuitant	[5/1/1947] 72
Date of Gift	8/29/2019
Principal Donated	$10,000.00
Cost Basis of Property	$3,000.00
Payout Rate from ACGA2018 Table	5.8%
Payment Schedule	quarterly at end

CALCULATIONS:

Charitable Deduction	$3,996.90
Number of Payments in First Year	2
Days in First Quarterly Period (7/1/2019 to 9/30/2019)	92
Days of Payment Credit in First Quarterly Period (8/29/2019 to 9/30/2019)	33
Annuity	$580.00
Quarterly Payment	$145.00
First Partial Payment on 9/30/2019 (33/92 x $145.00)	$52.01

BREAKDOWN OF ANNUITY:

	Capital Gain	Tax-free Portion	Ordinary Income	Total Annuity
2019 to 2019	98.47	42.20	56.34	197.01
2020 to 2033	289.89	124.23	165.88	580.00
2034 to 2034	45.24	19.51	515.25	580.00
2035 onward	0.00	0.00	580.00	580.00

Total reportable capital gain of $4,202.17 must be reported over 14.5 years (donor age 72 is primary annuitant).

After 14.5 years, the entire annuity becomes ordinary income.

The charitable deduction displayed above is based on an IRS discount rate for a month prior to the month of gift. To take your deduction based on this rate, you must specify it in an election statement that you file with your tax return.

Basic Gift Illustrations
Prepared by: Jeffrey Frye IRS Discount Rate is 2.8%

These calculations are for illustration purposes only and should not be considered legal, accounting, or other professional advice. Your actual benefits may vary depending on several factors, including the timing of your gift.

THE CHARITY

Prepared for:
The Donor
August 24, 2019

Actuarial Calculations

ESTIMATES

5.8% Charitable Gift Annuity

ASSUMPTIONS:

[1]	Annuitant		[5/1/1947] 72
	Date of Gift		8/29/2019
[2]	Principal Donated		$10,000.00
[3]	Cost Basis of Property		$3,000.00
[4]	Payout Rate from ACGA2018 Table		5.8%
[5]	Payment Schedule		quarterly at end
[6]	Discount Rate under IRC Section 7520(a) for 6/2019		2.8%

CALCULATIONS:

[7]	Annuity ([2] x [4])		$580.00
[8]	[a]	Value of $1 for age on [1], rate on [6] (Table S in IRS Publication 1457 (5-2009))	10.2436
	[b]	Adjustment for schedule on [5], rate on [6] (Table K in IRS Publication 1457 (5-2009))	1.0104
	[c]	Adj. Value of $1 ([8a] x [8b])	10.3502
[9]	Investment in Contract ([7] x [8c])		$6,003.10
[10]	**CHARITABLE DEDUCTION** ([2] - [9])		**$3,996.90**
[11]	[a]	Expected Return for age on [1] (Table V in Reg. 1.72-9)	14.6
	[b]	Adjustment for payment schedule on [5] (Reg. 1.72-5(a)(2)(i))	-0.1
	[c]	Expected Return per $1 ([11a] + [11b])	14.5
[12]	Expected Return ([7] x [11c])		$8,410.00
[13]	Exclusion Ratio ([9] / [12]) (Regs. 1.72-4, 1.1011-2(c) Example (8))		0.714
[14]	Bargain Sale Ratio ([9] / [2]) (Regs. 1.170A-1(d), 1.1011-2(b))		0.60031
[15]	Cost Basis Allocable to Sale Portion ([14] x [3])		$1,800.93
[16]	Total Reportable Capital Gain ([14] x ([2] - [3]))		$4,202.17
[17]	Years to Report Gain (life expectancy of donor age 72) (Reg. 1.1011-2(a)(4)(ii))		14.5

The charitable deduction displayed above is based on an IRS discount rate for a month prior to the month of gift. To take your deduction based on this rate, you must specify it in an election statement that you file with your tax return.

Appendix 4

A $10,000 charitable gift annuity with capital gains when the donor is not the annuitant

THE CHARITY

Prepared for:
The Donor
August 24, 2019

Summary of Benefits — ESTIMATES

5.8% Charitable Gift Annuity

ASSUMPTIONS:

Annuitant	[5/1/1947] 72
Date of Gift	8/29/2019
Principal Donated	$10,000.00
Cost Basis of Property	$3,000.00
Payout Rate from ACGA2018 Table	5.8%
Payment Schedule	quarterly at end

BENEFITS:

Charitable Deduction	**$3,996.90**
Annuity	**$580.00**
Tax-free Portion	$414.12
Ordinary Income	$165.88

Total reportable capital gain of $4,202.17 must be reported in the year of the gift.

After 14.5 years, the entire annuity becomes ordinary income.

The charitable deduction displayed above is based on an IRS discount rate for a month prior to the month of gift. To take your deduction based on this rate, you must specify it in an election statement that you file with your tax return.

Basic Gift Illustrations
Prepared by: Jeffrey Frye — IRS Discount Rate is 2.8%

These calculations are for illustration purposes only and should not be considered legal, accounting, or other professional advice. Your actual benefits may vary depending on several factors, including the timing of your gift.

THE CHARITY

Prepared for:
The Donor
August 24, 2019

Taxation of Gift Annuity Payments ESTIMATES

5.8% Charitable Gift Annuity

ASSUMPTIONS:

Annuitant	[5/1/1947] 72
Date of Gift	8/29/2019
Principal Donated	$10,000.00
Cost Basis of Property	$3,000.00
Payout Rate from ACGA2018 Table	5.8%
Payment Schedule	quarterly at end

CALCULATIONS:

Charitable Deduction	$3,996.90
Number of Payments in First Year	2
Days in First Quarterly Period (7/1/2019 to 9/30/2019)	92
Days of Payment Credit in First Quarterly Period (8/29/2019 to 9/30/2019)	33
Annuity	$580.00
Quarterly Payment	$145.00
First Partial Payment on 9/30/2019 (33/92 x $145.00)	$52.01

BREAKDOWN OF ANNUITY:

	Tax-free Portion	Ordinary Income	Total Annuity
2019 to 2019	140.67	56.34	197.01
2020 to 2033	414.12	165.88	580.00
2034 to 2034	64.75	515.25	580.00
2035 onward	0.00	580.00	580.00

Total reportable capital gain of $4,202.17 must be reported in the year of the gift.

After 14.5 years, the entire annuity becomes ordinary income.

The charitable deduction displayed above is based on an IRS discount rate for a month prior to the month of gift. To take your deduction based on this rate, you must specify it in an election statement that you file with your tax return.

Basic Gift Illustrations
Prepared by: Jeffrey Frye IRS Discount Rate is 2.8%

These calculations are for illustration purposes only and should not be considered legal, accounting, or other professional advice. Your actual benefits may vary depending on several factors, including the timing of your gift.

THE CHARITY

Prepared for:
The Donor
August 24, 2019

Actuarial Calculations — ESTIMATES

5.8% Charitable Gift Annuity

ASSUMPTIONS:

[1]	Annuitant		[5/1/1947] 72
	Date of Gift		8/29/2019
[2]	Principal Donated		$10,000.00
[3]	Cost Basis of Property		$3,000.00
[4]	Payout Rate from ACGA2018 Table		5.8%
[5]	Payment Schedule		quarterly at end
[6]	Discount Rate under IRC Section 7520(a) for 6/2019		2.8%

CALCULATIONS:

[7]	Annuity ([2] x [4])		$580.00
[8]	[a]	Value of $1 for age on [1], rate on [6] (Table S in IRS Publication 1457 (5-2009))	10.2436
	[b]	Adjustment for schedule on [5], rate on [6] (Table K in IRS Publication 1457 (5-2009))	1.0104
	[c]	Adj. Value of $1 ([8a] x [8b])	10.3502
[9]	Investment in Contract ([7] x [8c])		$6,003.10
[10]	**CHARITABLE DEDUCTION** ([2] - [9])		**$3,996.90**
[11]	[a]	Expected Return for age on [1] (Table V in Reg. 1.72-9)	14.6
	[b]	Adjustment for payment schedule on [5] (Reg. 1.72-5(a)(2)(i))	-0.1
	[c]	Expected Return per $1 ([11a] + [11b])	14.5
[12]	Expected Return ([7] x [11c])		$8,410.00
[13]	Exclusion Ratio ([9] / [12]) (Regs. 1.72-4, 1.1011-2(c) Example (8))		0.714
[14]	Bargain Sale Ratio ([9] / [2]) (Regs. 1.170A-1(d), 1.1011-2(b))		0.60031
[15]	Cost Basis Allocable to Sale Portion ([14] x [3])		$1,800.93
[16]	Total Reportable Capital Gain ([14] x ([2] - [3]))		$4,202.17

The charitable deduction displayed above is based on an IRS discount rate for a month prior to the month of gift. To take your deduction based on this rate, you must specify it in an election statement that you file with your tax return.

Prepared by: Jeffrey Frye — Basic Gift Illustrations

These calculations are for illustration purposes only and should not be considered legal, accounting, or other professional advice. Your actual benefits may vary depending on several factors, including the timing of your gift.

Appendix 5

THE CHARITY

Prepared for:
The Donor
August 24, 2019

Summary of Benefits — ESTIMATES

5% Charitable Unitrust

ASSUMPTIONS:

Beneficiary Age	[5/1/1947] 72
Date of Gift	8/29/2019
Cash Donated	$100,000.00
Payout Rate	5%
Payment Schedule	quarterly 3 months to 1st payment

BENEFITS:

Charitable Deduction	$55,543.00
Estimated Payments in First Full Year (future payments will vary with trust value)	$5,000.00

The charitable deduction displayed above is based on an IRS discount rate for a month prior to the month of gift. To take your deduction based on this rate, you must specify it in an election statement that you file with your tax return.

Basic Gift Illustrations
Prepared by: Jeffrey Frye — IRS Discount Rate is 2.8%

These calculations are for illustration purposes only and should not be considered legal, accounting, or other professional advice. Your actual benefits may vary depending on several factors, including the timing of your gift.

THE CHARITY

Prepared for:
The Donor
August 24, 2019

Non-Charitable Interest Actuarials ESTIMATES

5% Charitable Unitrust

ASSUMPTIONS:

[1]	Beneficiary Age Date of Valuation	[5/1/1947] 72 8/29/2019
[2]	Principal Value	$100,000.00
[3]	Payout Rate	5%
[4]	Payment Schedule	quarterly 3 months to 1st payment
[5]	Discount Rate under IRC Section 7520(a) for 6/2019	2.8%

CALCULATIONS:

[6]	Adjustment factor for schedule on [4], rate on [5] (Table F in IRS Publication 1458 (5-2009))	0.982918
[7]	Adjusted unitrust payout rate ([3] x [6]) (Reg. 1.664-4(e)(3))	4.9146%
[8]	Remainder factor for values on [1] and [7] (Table U(1) in IRS Publication 1458 (5-2009))	0.55543
[9]	Value of Remainder Interest ([2] x [8])	$55,543.00
[10]	Value of Life Interest ([2] - [9])	$44,457.00

Prepared by: Jeffrey Frye Basic Gift Illustrations

These calculations are for illustration purposes only and should not be considered legal, accounting, or other professional advice. Your actual benefits may vary depending on several factors, including the timing of your gift.

Appendix 6

Example of computation of estate tax

Example

Mrs. Margaret O'Brien has a $25 million estate and is in the highest income tax bracket because of the diversified portfolio of stocks and business interests she owns. Mrs. O'Brien is planning her estate and is looking for ways to reduce estate taxes, leave a large portion of the estate to her children, and make charitable gifts. She is 78 years old and asserts that she has not made any taxable lifetime transfers. How much federal estate tax would be levied on her estate, absent any provisions for charitable giving, if she were to pass away in 2019.

Calculating federal estate tax is more complicated than you might think. In order to compute the estate tax, we have to calculate the *tentative estate tax first*, using the Estate Tax Rate Schedule for 2019.

Gift and Estate Tax Rate Schedule in 2013 - 2019

Taxable Transfer	Tax	% on Excess
0	0	18
10,000	1,800	20
20,000	3,800	22
40,000	8,200	24
60,000	13,000	26
80,000	18,200	28
100,000	23,800	30
150,000	38,800	32
250,000	70,800	34
500,000	155,800	37
750,000	248,300	39
1,000,000	345,800	40

Top estate tax bracket = 40%

For Mrs. O'Brien, we break her estate into 2 portions. The tentative tax on the first $1 million is already computed in the tax schedule; that portion of the tax would be $345,800.

For the rest of the estate, we subtract $1 million from the total of $25 million, and multiply it by 40%. So, for the additional $24 million, the tentative tax would be $9,600,000. If we add the estimated tentative tax for the two portions together, the total estimated tentative tax would be $9,945,800. So, would Mrs. O'Brien's estate owe almost $10 million in federal estate taxes?

Probably not. The federal tax laws allow for a certain amount of wealth to be transferred either during life or at death free of any transfer tax (gift tax or estate tax). The amount, however, is not directly specified by the federal government, but rather, there is a *precise lifetime transfer tax credit* that each taxpayer is allowed to apply against the *tentative transfer tax.* The lifetime transfer tax credit relates to a specific dollar amount called the exemption equivalent. For persons dying in 2019, the lifetime transfer tax credit is $4,505,800, and that relates to an exemption equivalent of $11,400,000.

The federal estate tax credit schedule is as follows:

Estate Tax Credit Schedule

Year	Amount of Credit	Amount of Exemption Equivalent
2001	220,550	675,000
2002-2003	345,800	1,000,000
2004-2005	555,800	1,500,000
2006-2008	780,800	2,000,000
2009	1,455,800	3,500,000
2010	N/A	N/A
2011	1,730,800	5,000,000
2012	1,772,800	5,120,000
2013	2,045,800	5,250,000
2014	2,081,800	5,340,000
2015	2,117,800	5,430,000
2016	2,125,800	5,450,000
2017	2,141,800	5,490,000
2018	4,417,800	11,180,000
2019	4,505,800	11,400,000

In the example of Mrs. O'Brien, we calculated the *tentative transfer tax* at $9,945,800, but then we apply her lifetime exclusion amount against the tentative tax, and the difference is what her estate would actually have to pay.

If Mrs. O'Brien dies in 2019, and her total estate is valued at $25 million, here is how her actual estate tax would be computed:

Estate in 2019	$25,000,000
Prior taxable gifts	+0
Taxable estate	$25,000,000
Tentative estate tax	$9,945,800
Less 2019 estate tax credit	(4,505,800)
Estate Tax Due in 2019	$5,440,000
Net estate distributable to Mrs. O'Brien's heirs:	$19,560,000
Effective Estate Tax Rate	21.8%

What if Mrs. O'Brien wants to leave a significant amount of her estate to one or more non-profit organizations? That money comes off the top in the estate – any gifts to charity earn charitable estate tax deductions. Here's what it would look like if Mrs. O'Brien gave $10,000,000 of her estate to charities.

Estate in 2019	$25,000,000
Prior taxable gifts	+0
Less charitable bequests	($10,000,000)
Net Taxable estate	$15,000,000
Tentative tax	$5,945,800
Less 2019 estate tax credit	- $4,505,800
Estate Tax Due in 2019	$1,440,000
Net estate distributable to Mrs. O'Brien's heirs:	$13,560,000
Effective Estate Tax Rate	5.8%

Now let's take a look at how Mrs. O'Brien might use a charitable lead annuity trust instead of making an outright gift to charity.

THE CHARITY

Prepared for:
Mrs. O'Brien
August 24, 2019

Benefits and Tax Consequences

ESTIMATES

ASSUMPTIONS:
Projection begins in 2019 and runs for 20 years.
Lead trust makes annual, end of period payments to THE CHARITY.
Original principal of $10,000,000 has a cost basis of $4,000,000.
Donor income tax bracket is 40.8%, 23.8% for capital gains.
Beneficiary income tax bracket is 40.8%, 23.8% for capital gains.
Value of donor's estate is $25,000,000. Prior taxable gifts are $11,400,000.
Basic exclusion is $11,400,000.
Income is 2.5%, capital appreciation is 4.5%.

	5% Non-Grantor Lead Annuity Trust
Principal Placed in Plan	$9,266,157
Annuity to THE CHARITY	$463,308
Gift Tax Deduction	$7,431,551
Taxable Gift	$1,834,607
Gift Tax (paid 2019 by donor)	$733,843
Principal and Tax to Establish Plan	$10,000,000
Total Income Tax Paid Over Term by Trust	$0
Principal after 20 Years	$16,863,571
Benefit to Family	**$16,863,571**
(ending principal less taxes in 2039)	
Total Distributed to THE CHARITY	**$9,266,157**
Total Benefit	**$26,129,728**

Lead Trust Projections
Prepared by: Jeffrey Frye

IRS Discount Rate is 2.2%

These calculations are for illustration purposes only and should not be considered legal, accounting, or other professional advice. Your actual benefits may vary depending on several factors, including the timing of your gift.

Detailed Cash Flow Analysis ESTIMATES

ASSUMPTIONS:
Projection begins in 2019 and runs for 20 years.
Lead trust makes annual, end of period payments to THE CHARITY.
Original principal of $10,000,000 has a cost basis of $4,000,000.
Donor income tax bracket is 40.8%, 23.8% for capital gains.
Beneficiary income tax bracket is 40.8%, 23.8% for capital gains.
Value of donor's estate is $25,000,000. Prior taxable gifts are $11,400,000.
Basic exclusion is $11,400,000.

5% Non-Grantor Lead Annuity Trust

YR	Capital Apprec. (4.5%)	Income (2.5%)	Payout to THE CHARITY	Mgmt Fees	Trust Income Tax	Year-End Principal
2019						$9,266,157
2020	$416,977	$231,654	$463,308	$0	$0	9,451,481
2021	425,317	236,287	463,308	0	0	9,649,776
2022	434,240	241,244	463,308	0	0	9,861,953
2023	443,788	246,549	463,308	0	0	10,088,982
2024	454,004	252,225	463,308	0	0	10,331,902
2025	464,936	258,298	463,308	0	0	10,591,828
2026	476,632	264,796	463,308	0	0	10,869,948
2027	489,148	271,749	463,308	0	0	11,167,536
2028	502,539	279,188	463,308	0	0	11,485,956
2029	516,868	287,149	463,308	0	0	11,826,665
2030	532,200	295,667	463,308	0	0	12,191,224
2031	548,605	304,781	463,308	0	0	12,581,302
2032	566,159	314,533	463,308	0	0	12,998,685
2033	584,941	324,967	463,308	0	0	13,445,285
2034	605,038	336,132	463,308	0	0	13,923,147
2035	626,542	348,079	463,308	0	0	14,434,459
2036	649,551	360,861	463,308	0	0	14,981,564
2037	674,170	374,539	463,308	0	0	15,566,965
2038	700,513	389,174	463,308	0	0	16,193,345
2039	728,701	404,834	463,308	0	0	16,863,571
TOT	**$10,840,867**	**$6,022,704**	**$9,266,157**	**$0**	**$0**	**$16,863,571**

Lead Trust Projections
Prepared by: Jeffrey Frye IRS Discount Rate is 2.2%

These calculations are for illustration purposes only and should not be considered legal, accounting, or other professional advice. Your actual benefits may vary depending on several factors, including the timing of your gift.

Here is the lead trust adjusted with an optimum payout rate to eliminate any transfer taxes:

THE CHARITY

Prepared for:
Mrs. O'Brien
August 24, 2019

Benefits and Tax Consequences ESTIMATES

ASSUMPTIONS:
Projection begins in 2019 and runs for 20 years.
Lead trust makes annual, end of period payments to THE CHARITY.
Original principal of $10,000,000 has a cost basis of $4,000,000.
Donor income tax bracket is 40.8%, 23.8% for capital gains.
Beneficiary income tax bracket is 40.8%, 23.8% for capital gains.
Value of donor's estate is $25,000,000. Prior taxable gifts are $11,400,000.
Basic exclusion is $11,400,000.
Income is 2.5%, capital appreciation is 4.5%.

	6.2344% Non-Grantor Lead Annuity Trust
Principal Placed in Plan	$10,000,000
Annuity to THE CHARITY	$623,440
Gift Tax Deduction	$10,000,000
Taxable Gift	$0
Gift Tax (paid 2019 by donor)	$0
Principal and Tax to Establish Plan	$10,000,000
Total Income Tax Paid Over Term by Trust	$0
Principal after 20 Years	$13,138,615
Benefit to Family	**$13,138,615**
(ending principal less taxes in 2039)	
Total Distributed to THE CHARITY	**$12,468,800**
Total Benefit	**$25,607,415**

Lead Trust Projections
Prepared by: Jeffrey Frye IRS Discount Rate is 2.2%

These calculations are for illustration purposes only and should not be considered legal, accounting, or other professional advice. Your actual benefits may vary depending on several factors, including the timing of your gift.

THE CHARITY

Prepared for:
Mrs. O'Brien
August 24, 2019

Detailed Cash Flow Analysis — ESTIMATES

ASSUMPTIONS:
Projection begins in 2019 and runs for 20 years.
Lead trust makes annual, end of period payments to THE CHARITY.
Original principal of $10,000,000 has a cost basis of $4,000,000.
Donor income tax bracket is 40.8%, 23.8% for capital gains.
Beneficiary income tax bracket is 40.8%, 23.8% for capital gains.
Value of donor's estate is $25,000,000. Prior taxable gifts are $11,400,000.
Basic exclusion is $11,400,000.

6.2344% Non-Grantor Lead Annuity Trust

YR	Capital Apprec. (4.5%)	Income (2.5%)	Payout to THE CHARITY	Mgmt Fees	Trust Income Tax	Year-End Principal
2019						$10,000,000
2020	$450,000	$250,000	$623,440	$0	$0	10,076,560
2021	453,445	251,914	623,440	0	0	10,158,479
2022	457,132	253,962	623,440	0	0	10,246,133
2023	461,076	256,153	623,440	0	0	10,339,922
2024	465,296	258,498	623,440	0	0	10,440,277
2025	469,812	261,007	623,440	0	0	10,547,656
2026	474,645	263,691	623,440	0	0	10,662,552
2027	479,815	266,564	623,440	0	0	10,785,490
2028	485,347	269,637	623,440	0	0	10,917,035
2029	491,267	272,926	623,440	0	0	11,057,787
2030	497,600	276,445	623,440	0	0	11,208,392
2031	504,378	280,210	623,440	0	0	11,369,540
2032	511,629	284,238	623,440	0	0	11,541,968
2033	519,389	288,549	623,440	0	0	11,726,465
2034	527,691	293,162	623,440	0	0	11,923,878
2035	536,575	298,097	623,440	0	0	12,135,109
2036	546,080	303,378	623,440	0	0	12,361,127
2037	556,251	309,028	623,440	0	0	12,602,966
2038	567,133	315,074	623,440	0	0	12,861,734
2039	578,778	321,543	623,440	0	0	13,138,615
TOT	**$10,033,338**	**$5,574,077**	**$12,468,800**	**$0**	**$0**	**$13,138,615**

Lead Trust Projections
Prepared by: Jeffrey Frye — IRS Discount Rate is 2.2%

These calculations are for illustration purposes only and should not be considered legal, accounting, or other professional advice. Your actual benefits may vary depending on several factors, including the timing of your gift.

And here is the projection of the trust as the IRS views it (with the principal being completely eroded over 20 years so there is nothing left):

THE CHARITY

Prepared for:
Mrs. O'Brien
August 24, 2019

Benefits and Tax Consequences   ESTIMATES

ASSUMPTIONS:
Projection begins in 2019 and runs for 20 years.
Lead trust makes annual, end of period payments to THE CHARITY.
Original principal of $10,000,000 has a cost basis of $4,000,000.
Donor income tax bracket is 40.8%, 23.8% for capital gains.
Beneficiary income tax bracket is 40.8%, 23.8% for capital gains.
Value of donor's estate is $25,000,000. Prior taxable gifts are $11,400,000.
Basic exclusion is $11,400,000.
Income is 1.1%, capital appreciation is 1.1%.

	6.2344% Non-Grantor Lead Annuity Trust
Principal Placed in Plan	$10,000,000
Annuity to THE CHARITY	$623,433
Gift Tax Deduction	$10,000,000
Taxable Gift	$0
Gift Tax (paid 2019 by donor)	$0
Principal and Tax to Establish Plan	$10,000,000
Total Income Tax Paid Over Term by Trust	$0
Principal after 20 Years	$0
Benefit to Family	**$0**
(ending principal less taxes in 2039)	
Total Distributed to THE CHARITY	**$12,468,656**
Total Benefit	**$12,468,656**

Lead Trust Projections
Prepared by: Jeffrey Frye   IRS Discount Rate is 2.2%

These calculations are for illustration purposes only and should not be considered legal, accounting, or other professional advice. Your actual benefits may vary depending on several factors, including the timing of your gift.

THE CHARITY

Prepared for:
Mrs. O'Brien
August 24, 2019

Detailed Cash Flow Analysis

ESTIMATES

ASSUMPTIONS:
Projection begins in 2019 and runs for 20 years.
Lead trust makes annual, end of period payments to THE CHARITY.
Original principal of $10,000,000 has a cost basis of $4,000,000.
Donor income tax bracket is 40.8%, 23.8% for capital gains.
Beneficiary income tax bracket is 40.8%, 23.8% for capital gains.
Value of donor's estate is $25,000,000. Prior taxable gifts are $11,400,000.
Basic exclusion is $11,400,000.

6.2344% Non-Grantor Lead Annuity Trust

YR	Capital Apprec. (1.1%)	Income (1.1%)	Payout to THE CHARITY	Mgmt Fees	Trust Income Tax	Year-End Principal
2019						$10,000,000
2020	$110,000	$110,000	$623,440	$0	$0	9,596,560
2021	105,562	105,562	623,440	0	0	9,184,244
2022	101,027	101,027	623,440	0	0	8,762,858
2023	96,391	96,391	623,440	0	0	8,332,201
2024	91,654	91,654	623,440	0	0	7,892,069
2025	86,813	86,813	623,440	0	0	7,442,254
2026	81,865	81,865	623,440	0	0	6,982,544
2027	76,808	76,808	623,440	0	0	6,512,720
2028	71,640	71,640	623,440	0	0	6,032,560
2029	66,358	66,358	623,440	0	0	5,541,836
2030	60,960	60,960	623,440	0	0	5,040,317
2031	55,443	55,443	623,440	0	0	4,527,764
2032	49,805	49,805	623,440	0	0	4,003,934
2033	44,043	44,043	623,440	0	0	3,468,581
2034	38,154	38,154	623,440	0	0	2,921,450
2035	32,136	32,136	623,440	0	0	2,362,282
2036	25,985	25,985	623,440	0	0	1,790,812
2037	19,699	19,699	623,440	0	0	1,206,770
2038	13,274	13,274	623,440	0	0	609,879
2039	6,709	6,709	623,296	0	0	0
TOT	**$1,234,328**	**$1,234,328**	**$12,468,656**	**$0**	**$0**	**$0**

Lead Trust Projections
Prepared by: Jeffrey Frye

IRS Discount Rate is 2.2%

These calculations are for illustration purposes only and should not be considered legal, accounting, or other professional advice. Your actual benefits may vary depending on several factors, including the timing of your gift.

Appendix 7

States with an Estate or Inheritance Tax in 2019

Connecticut: The top estate tax rate is 12 percent and is capped at $15 million *(exemption threshold: $3.6 million; the exemption amount will rise to $5.1 million in 2020, $7.1 million in 2021, $9.1 million in 2022, and is scheduled to match the federal amount in 2023.*)

District of Columbia: The top estate tax rate is 16 percent *(exemption threshold: $5.6 million)*

Hawaii: The top estate tax rate is 16 percent *(exemption threshold: $5.49 million)*

Illinois: The top estate tax rate is 16 percent *(exemption threshold: $4 million)*

Iowa: The top inheritance tax rate is 15 percent (*no exemption threshold*)

Kentucky: The top inheritance tax rate is 16 percent (*exemption threshold for Class C beneficiaries: $500*; *exemption threshold for Class B beneficiaries: $1,000*; *Class A beneficiaries, which is the majority, pay no inheritance tax*)

Maine: The top estate tax rate is 12 percent *(exemption threshold: $5.6 million)*

Maryland: The top estate tax rate is 16 percent *(exemption threshold: $5 million)*; The top inheritance tax rate is 10 percent (*no exemption threshold*)

Massachusetts: The top estate tax rate is 16 percent *(exemption threshold: $1 million)*

Minnesota: The top estate tax rate is 16 percent *(exemption threshold: $2.7 million; this increases to $3 million in 2020)*

Nebraska: The top inheritance tax rate is 18 percent (*exemption threshold: $10,000*)

New Jersey: The top inheritance tax rate is 16 percent (*no exemption threshold*)

New York: The top estate tax rate is 16 percent *(exemption threshold: $5.749 million)*

Oregon: The top estate tax rate is 16 percent *(exemption threshold: $1 million)*

Pennsylvania: The top inheritance tax rate is 15 percent (*no exemption threshold*)

Rhode Island: The top estate tax rate is 16 percent *(exemption threshold: $1,561,719)*

Vermont: The top estate tax rate is 16 percent *(exemption threshold: $2.75 million)*

Washington: The top estate tax rate is 20 percent *(exemption threshold: $2.193 million)*

Sources: TheBalance.com, Everplans.com, Kiplinger.com, TaxFoundation.org.