


**PG Calc** YOUR PARTNER IN PLANNED GIVING SUCCESS



## Fundamentals of Planned Giving

**Part One:  
Tax Fundamentals**

Date: July 12, 2022  
Time: 1:00 – 2:30 Eastern  
Presenter: Craig Wruck  
Senior Advisor, PG Calc

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## Agenda

- Income tax
  - Effective and marginal tax rates
  - Capital gains tax
- After-tax cost of giving
- Donor nuts and bolts
- Transfer tax
- Split interest gifts

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## Federal Tax System

- Income tax system
  - Income tax – on earned income
  - Capital gains tax – on investment profit
- Transfer tax system
  - Estate taxes – on transfers at death
  - Gift taxes – on gifts during lifetime

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### After-tax Cost of a Gift

After-tax Cost of Giving	
	Value Contributed
Minus	Taxes Saved or Avoided
Equals	Cost of Giving

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### Individual Income Tax

Taxable Income	
	Gross Income
Minus	Adjustments to Income
Equals	Adjusted Gross Income (AGI)
Minus	Certain items – including charitable contributions – may be deducted, but only if total exceeds the “standard deduction” amount (in 2022: \$25,900 married filing jointly, \$12,950 individual)*
Equals	Taxable Income

Note: taxpayers over age 65 enjoy an additional deduction of \$1,400; effectively, a married couple filing jointly have a standard deduction of \$28,700

\*Amounts adjusted for inflation each year

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### Graduated and Progressive Rates

- Rates apply to *taxable* income
- Rates range from 10% to 37%
- *Effective* rate is less than *marginal* rate
- Key point:  
Charitable deductions reduce taxable income which saves taxes at the *highest marginal rate*

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### Amount of Deduction

- Publicly traded securities: average between the high and low prices on the date of the gift
- Other non-cash gifts: "fair market value" – the price arrived at between a willing buyer and a willing seller both having adequate knowledge ... etc.
- More than \$5,000 – qualified appraisal required to determine value

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### After-tax Cost of a Gift

Assume a donor in the 24% tax bracket is considering a contribution of \$10,000 either in cash or in appreciated securities with a cost basis of \$2,000 (\$8,000 gain)

	Cash	Securities
Contribution	\$10,000	\$10,000
Income taxes saved	2,400	2,400
Capital gains taxes avoided	- -	1,200
After-tax cost of gift	\$7,600	\$6,400

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### Deduction Limitations

- 60% of AGI – maximum deduction in any one year for cash contributions
- 30% of AGI – maximum deduction for contributions of appreciated property
- 5-year carryover for unused deductions
- Gifts to private foundations subject to lower limits: 30% cash, 20% appreciated property

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- Amount of deduction is reduced by value of goods or services *made available* as a result of contribution
- Applies to all premiums offered as a result of contribution as well as "benefit" events
- Must be disclosed in solicitation
- Applies if goods or services are offered – *whether or not they are accepted*

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Year in which the deduction can be taken depends upon date of gift – generally when the donor irrevocably surrenders control of the gift

By mail	Postmark date
Delivered	Date delivered
Credit card	Date charge authorized
Electronic transfer	Date completed by bank
Physical securities	Date delivered in negotiable form
Brokerage account	Date entered into charity's account

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- Donors must have written acknowledgement to substantiate income tax charitable deductions
- Non-cash gifts
  - \$500 or less – estimate value on Schedule A
  - \$501 through \$5,000 – estimate value, complete Form 8283 explaining valuation methodology\*
  - Over \$5,000 – qualified appraisal, complete Form 8283 with charity acknowledgement

\* Deductions over \$500 for contributions of clothing require appraisal

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Join us for Session 3 to learn more about:

- Personal property
- Ordinary income property
- Short-term capital gain property

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- Tax paid by the giver whenever something of value is given to another individual
- Annual gift exclusion: \$16,000 per individual
- Lifetime exclusion: \$12.06 million tax free
  - Cumulative total of lifetime gifts plus gifts at death
  - Unlimited exclusion on transfers to spouse
  - Portability of unused deceased spousal exclusion
- 40% rate on taxable transfers

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- Step-up in cost basis for transfers at death but lifetime transfers carry over original basis: heirs avoid capital gains tax, lifetime recipients must pay
- Unlimited charitable deduction
- Affects less than 0.2% of Americans
  - Lifetime exclusion (\$12.06M) adjusted annually
  - Annual exclusion (\$16K) adjusted periodically
- After 2025, lifetime exclusion reduced by about half

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- State tax laws affect after-tax cost of giving
- State income taxes
- Charitable deduction limitations
- State estate taxes, different thresholds
- State income tax deductible from Federal income up to \$10,000
- State estate tax deductible from Federal taxable estate up to amount of Federal taxable estate

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- Donor makes irrevocable contribution but retains right to receive income
- Deduction is for amount contributed minus the estimated value of the right to receive income
- Larger deductions: older and fewer beneficiaries, smaller payouts
- Smaller deductions: younger and more beneficiaries, higher payouts

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("IRS Discount Rate," "Applicable Federal Rate (AFR)," "7520 Rate")

- Published monthly by IRS
- Donor can use rate for month of gift or either of prior two months
- Affects deductible amount for most planned gifts
- Higher rate: maximizes deduction for CGAs, CRTs (but minimizes CGA tax-free portion)
- Lower rate: maximizes deduction for CLTs, RLEs

Note: CMFR for July 2022 is 3.6%, about half the long-term average but significantly higher than historic low of 0.6% that occurred in late 2020

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To ask a question click the Q&A button at the bottom

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**PG Calc** YOUR PARTNER IN PLANNED GIVING SUCCESS **Still Have a Question?**

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