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## Basic Taxation for Gift Planners



Date: June 2, 2020  
Time: 1:00 – 2:30 Eastern  
Presenter: Craig C. Wruck  
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PG Calc



## 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



## 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



## After-Tax Cost of a Gift

<b>After-Tax Cost of Giving</b>	
	Value Contributed
minus	Taxes Saved or Avoided
equals	Cost of Giving



## 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 2020: \$12,400 single, \$24,800 married filing jointly)*
equals	Taxable Income
*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 – saving taxes at *highest marginal rate*



## 2020 Tax Rates

Rate	Single	Married Filing Jointly
10%	\$0 to \$9,875	\$1 to \$19,750
12%	\$9,876 to \$40,125	\$19,751 to \$80,250
22%	\$40,126 to \$85,525	\$80,251 to \$171,050
24%	\$85,526 to \$163,300	\$171,051 to \$326,600
32%	\$163,301 to \$207,350	\$326,601 to \$414,700
35%	\$207,351 to \$518,400	\$414,701 to \$622,050
37%	\$518,401 and over	\$622,051 and over
Brackets are adjusted annually for inflation		



## Effective Tax Rate

Taxable income \$200,000, married filing jointly:

Taxable Income	Tax Rate	Tax Due
First \$19,750	10%	\$1,975
Next \$60,500	12%	\$7,260
Next \$90,800	22%	\$19,976
Last \$28,950	24%	\$6,948
<b>TOTAL: \$200,000</b>		<b>\$36,159</b>

Marginal Tax Rate = 24%

Effective Tax Rate = 18% (\$36k/\$200k)





## Capital Gains Tax

- Capital gain: profit on sale of an investment
- Long-term capital gain: held more than one year
  - ✓ Taxed at preferential rates: 15% or 20%
- Short-term capital gain: held one year or less
  - ✓ Taxed at ordinary income rates
- Key point:
  - ✓ No capital gains tax at all on transfer of long-term capital gain property to charity



## Amount of Deduction

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



## 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



## **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
- Special rule for 2020 only: 100% limit for contributions of cash to public charities



## Quid Pro Quo Reductions

- 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



## Date of Gift

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

By mail	Postmark
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



## Substantiation Requirements

- Donors must have written acknowledgement to substantiate 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



## Other Notes

- Join us for Session 3 to learn more about:
  - ✓ Personal property
  - ✓ Ordinary income property
  - ✓ Short-term capital gain property

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## Transfer Taxes

- Tax paid *by the giver* whenever something of value is given to another individual
- Annual gift exclusion: \$15,000 per individual
- Lifetime exclusion: \$11.58 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



## Transfer Taxes

- Affects less than 0.2% of Americans
- Step-up in cost basis for transfers at death but lifetime transfers carry over original basis
- Unlimited charitable deduction
- Lifetime exclusion (\$11.58M) adjusted annually
- Annual exclusion (\$15k) adjusted periodically



## State Taxes

- State tax laws affect after-tax cost of giving
- State income taxes
- Charitable deduction limitations
- State estate taxes, different thresholds
- State income and estate taxes are deductible from Federal taxes



## Split Interest Deductions

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



## Charitable Midterm Federal Rate

- Published monthly by IRS
- Can use rate for month of gift or prior 2 months
- Affects deductible amount for most planned gifts
- Highest rate: max. deduction for CGAs, CRTs (but minimizes CGA tax-free portion)
- Lowest rate: max. deduction for CLTs, RLEs
- Note: at 0.6%, CMFR for June 2020 is lowest ever



## Still Have a Question?

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