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Fundamentals of Planned Giving

Part One:

Tax Fundamentals

Date: July 9, 2024

Time: 1:00 – 2:30 Eastern

Presenter: Craig Wruck

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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 2024: \$29,200 married filing jointly, \$14,600 individual)*
Equals	Taxable Income
*Amounts adjusted for inflation each year	

Note: taxpayers over age 65 enjoy an additional deduction of \$1,550; effectively, a married couple filing jointly have a standard deduction of \$32,500



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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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2024 Income Tax Rates

Rate	Married Filing Jointly	Single
10%	\$1 – \$23,200	\$1 – \$11,600
12%	\$22,201 – \$94,300	\$11,601 – \$47,150
22%	\$94,301 – \$201,050	\$47,151 – \$100,525
24%	\$201,051 – \$383,900	\$100,526 – \$191,950
32%	\$383,901 – \$487,450	\$191,951 – \$243,725
35%	\$487,451 – \$731,200	\$243,726 – \$609,350
37%	\$731,201 and over	\$609,351 and over

Brackets are adjusted annually for inflation

Effective Tax Rate vs Marginal Tax Rate

Taxable income \$250,000, married filing jointly:

Taxable Income	Tax Rate	Tax Due
the first \$23,200	10%	\$2,320
the next \$71,100	12%	\$8,532
the next \$106,750	22%	\$23,485
the last \$28,950	24%	\$11,748
Total: \$250,000		\$46,085

Marginal Tax Rate = 24%
Effective Tax Rate = 18% (\$46k/\$250k)



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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 on gift of long-term capital gain property to charity*



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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

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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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*



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Date of Gift

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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Substantiation Requirements

- 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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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: \$18,000 per individual
- Lifetime exclusion: \$13.61 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

- 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 (\$13.61M) adjusted annually
 - Annual exclusion (\$18K) adjusted periodically
- After 2025, lifetime exclusion reduced by about half



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State Taxes

- 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

Split Interest Deductions

- 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

Charitable Midterm Federal Rate (CMFR)

(“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: The current CMFR is near its long-term average of about 5%; it reached a low of 0.4% in 2020 and a high of 11.6% in 1989



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

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Still Have a Question?

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