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## **Show Me the Money! Financial Terms for Fundraisers**

**Date: November 21**  
**Time: 1:00 – 2:00 Eastern**  
**Presenter: Jeffrey Frey**  
**PG Calc**



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**Can I do a QCD from my IRA to fund a CGA?**

**Will that satisfy my RMD?**

**What about my Roth? Wait – what??**

These and other terms are bandied about among planned giving professionals, but not everyone is familiar with them. What do they mean? And what are the meanings of other commonly-used abbreviations, acronyms, and nicknames?



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# Agenda

- I. Cost Basis**
- II. Capital Gains**
- III. Income Tax Brackets**
- IV. Marginal Income Tax Rates**
- V. Income Tax Deductions**
- VI. Transfer Taxes**
- VII. Investment Return**
- VIII. Real World Investment Results**
- IX. Present Value**
- X. All About IRAs**

**Cost basis is what the owner paid for an asset.**

**Example #1: Stock purchased for \$10,000 in 1993. Current FMV of stock is \$20,000.**

- Cost basis = \$10,000.

**Example #2: Mutual fund shares purchased for \$8,000 in 2003. Current FMV = \$19,000. Is cost basis \$8,000?**

- No, because quarterly dividends have been reinvested in additional shares.
- Every dividend reinvestment creates an additional “tax lot.” For example, first quarterly dividend in 2003 was for \$50. When that money is reinvested in additional shares, there is a new holding – a new “tax lot” – with a cost basis of \$50.
- That means the total cost basis of ALL the shares is  $\$8,000 + \$50 = \$8,050$ .

## Cost Basis (continued)

**Example #3: Real estate is purchased in 2013 for \$200,000. Capital improvements made to property over several years for \$140,000. Current FMV is \$490,000.**

- Total cost basis is  $\$200,000 + \$140,000 = \$340,000$ .

**Example #4: Real estate is purchased in 2013 for \$200,000. Capital improvements made to property over several years for \$140,000. Current FMV is \$490,000.**

- Total cost basis is  $\$200,000 + \$140,000 = \$340,000$ .
- But real estate is rental property. Over 10 years, the donor claims depreciation (expenses) of \$10,000 each year for total of \$100,000 depreciation.
- Taking depreciation reduces taxable income each year, but also lowers the cost basis by the same amount.
- We say the “adjusted cost basis” is  $\$340,000 - \$100,000 = \$240,000$ .

**Capital gain is the amount of increase in the value of an asset since purchase.**

**Example #1: Stock purchased for \$10,000 in 1993. Current FMV of stock is \$20,000.**

- Cost basis = \$10,000.
- Capital gains are  $\$20,000 - \$10,000 = \$10,000$

**Example #2: Mutual fund shares purchased for \$8,000 in 2003. Current FMV = \$19,000.**

- Quarterly reinvestment of \$50 in dividends results in additional holding (tax lot).
- That means the total cost basis of ALL the shares is  $\$8,000 + \$50 = \$8,050$ .
- Capital gains are  $\$19,000 - \$8,050 = \$10,950$ .



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# Income Tax Brackets

## Schedule X: Single Individuals 2025

Taxable Income*	Tax	% on Excess
\$0	\$0	10
11,925	1,192.50	12
48,475	5,578.50	22
103,350	17,651	24
197,300	40,199	32
250,525	57,231	35
626,350	188,769.75	37

Source: Revenue Procedure 2024-40

# Income Tax Brackets

## Schedule Y-1: Married Filing Jointly and Surviving Spouses

2025

Taxable Income*	Tax	% on Excess
\$0	\$0	10
23,850	2,385	12
96,950	11,157	22
206,700	35,302	24
394,600	80,398	32
501,050	114,462	35
751,600	202,154.50	37

Source: Revenue Procedure 2024-40



## Marginal Income Tax Rates

**Each \$1 of additional income is taxed at the marginal income tax bracket.**

**Example: Individual (single) earns \$197,300 in 2025.**

- Federal income tax will be \$40,199 (according to previous table).
- But \$1,000 of additional income will be taxed at 32% marginal income tax rate.
- Additional federal income tax will be \$320.
- Total income tax will be \$40,519.

**What is the effective (average) income tax rate?**

- Total income tax of \$40,519 divided by total income of \$198,300 = 20.4%

**Income tax deductions are useful ONLY to the people who itemize them on their tax returns.**

- The Tax Act of 2017 essentially doubled the standard deduction.
- Before 2018, approximately 30% of all tax returns were itemized.
- Since 2018, approximately 10% of all tax returns are itemized.
- Repeat: Income tax deductions are useful ONLY to the people who itemize them on their tax returns.

## How do income tax deductions work?

### Example #1:

- Adjusted gross income in 2025 = \$200,000
- Standard deduction = \$15,000
- Net taxable income = \$185,000
- Total income tax for non-itemized tax return = \$37,247
- Effective tax rate = 18.6%



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## Income Tax Deductions (continued)

### Example #2:

- Adjusted gross income in 2025 = \$200,000
- Itemized deductions = \$25,000
- Net taxable income = \$175,000
- Total income tax for non-itemized tax return = \$35,563
- Tax savings for filing itemized tax return = \$1,684
- Effective tax rate = 17.8%

## Transfer Taxes

- In the United States, there is no tax on holding wealth, regardless of the amount.
- There is, however, a tax on transferring wealth from one person to another.
- *Gift Tax* is for a transfer of wealth between 2 living persons.
- *Estate Tax* is for a transfer of wealth from a deceased person to a living person.



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## Transfer Taxes (continued)

### Gift and Estate Tax Rate Schedule in 2013 - 2025

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

# Transfer Taxes (continued)

## Estate Tax Credit Schedule

Year	Amount of Credit	Amount of Exemption Equivalent
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
2020	4,577,800	11,580,000
2021	4,625,800	11,700,000
2022	4,769,800	12,060,000
2023	5,113,800	12,920,000
2024	5,389,800	13,610,000
2025	5,541,800	13,990,000

## Transfer Taxes (continued)

### Example #1: Estate in 2025 without charitable gifts

Total estate value	\$25,000,000
Charitable gifts (bequests)	\$0
Taxable estate	\$25,000,000
Tentative estate tax	\$9,945,800
Less 2025 estate tax credit	(\$5,541,800)
Estate tax due in 2025	\$4,404,000
Net estate distributable to heirs:	\$20,596,000
Effective estate tax rate	17.6%



## Transfer Taxes (continued)

### Example #2: Estate in 2025 with charitable gifts

Total estate value	\$25,000,000
Charitable gifts (bequests)	(\$10,000,000)
Taxable estate	\$15,000,000
Tentative estate tax	\$5,945,800
Less 2025 estate tax credit	(\$5,541,800)
Estate tax due in 2025	\$404,000
Net estate distributable to heirs:	\$14,596,000
Effective estate tax rate	1.6%

## Gross investment return

- Investor purchases stock for \$100,000
- After 1 year, the FMV is \$110,000
- Gross rate of return =  $(110,000 - 100,000) / 100,000 = 0.1 = 10\%$

## Net investment return

- Professional asset manager purchases stock for \$100,000
- After 1 year, the FMV is \$110,000
- Asset manager charges management fee of \$1,100 at end of 1 year (asset management fee = 1% of total market value at end of period)
- Net rate of return =  $(110,000 - 100,000 - 1,100) / 100,000 = 0.89 = 8.9\%$



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# Real World Investment Results

YEAR	S&P 500	Bloomberg Barclays Agg	Portfolio consisting of 50% each
1999	21.04%	-0.82%	10.11%
2000	-9.11%	11.63%	1.26%
2001	-11.89%	8.43%	-1.73%
2002	-22.10%	10.26%	-5.92%
2003	28.68%	4.10%	16.39%
2004	10.88%	4.34%	7.61%
2005	4.91%	2.43%	3.67%
2006	15.79%	4.33%	10.06%
2007	5.49%	6.97%	6.23%
2008	-37.00%	5.24%	-15.88%
2009	26.46%	5.93%	16.20%
2010	15.06%	6.54%	10.80%
2011	2.11%	7.84%	4.98%
2012	16.00%	4.22%	10.11%
2013	32.39%	-2.02%	15.19%
2014	13.46%	5.97%	9.72%
2015	1.25%	0.55%	0.90%
2016	12.00%	2.65%	7.33%
2017	21.70%	3.54%	12.62%
2018	-6.24%	0.01%	-3.12%
2019	28.88%	8.72%	18.80%
2020	16.26%	7.51%	11.89%
2021	26.89%	-1.54%	12.68%
2022	-19.44%	-13.01%	-16.23%
2023	24.23%	5.53%	14.88%



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# Real World Investment Results (continued)

## Long Term Averages

Year	S&P 500	Bloomberg Barclays Agg	Portfolio consisting of 50% each
Average for 25 years - 1999 to 2023	8.71%	3.97%	6.34%
Average for 20 years - 2004 to 2023	10.55%	3.29%	6.92%
Average - 15 years - 2009 to 2023	14.07%	2.83%	8.45%
Average - 10 years - 2014 to 2023	11.90%	1.99%	6.95%
Average - 5 years - 2019 to 2023	15.36%	1.44%	8.40%



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# Present Value

**Present value (PV) is the current value of an amount to be received in the future.**

- **Present value formula:**

$$PV = FV / (1 + r)^n$$

FV = Future Value

r = assumed rate of return

n = number of periods (typically years)



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## Present Value (continued)

- The assumed rate of return can also be interpreted as the estimated rate of inflation.
- If the estimated rate of inflation is 3%, the present value of \$100 a year from now is approximately \$97.
- In planned giving, present value is especially important, because most gifts are fully realized in the future.
- If a donor intends to leave \$1 million to a charity, and the donor has a remaining life expectancy of 10 years, the present value of the future gift is considerably less than \$1 million.

*Ah, so much to say, so little time...*

## What is an IRA?

- An individual retirement account (IRA) is a particular type of tax-exempt savings account. The traditional IRA is used for setting earnings aside during one's working years and withdrawing those earnings later in life – typically during one's retirement years.
- There is no immediate tax on the income that is deposited into the traditional IRA, and the money is allowed to grow tax-free in the IRA. When the IRA owner eventually withdraws money from the IRA, the amounts withdrawn are fully taxable as ordinary income.
- Other types of IRAs include Roth IRAs, SIMPLE IRAs, and SEP IRAs.

## All About IRAs (continued)

- With a traditional IRA, the owner is allowed to take “Qualified Distributions” at age 59 ½. The IRA owner MUST take Required Minimum Distributions beginning at age 73.
- The “RMD” is the Required Minimum Distribution, calculated by the IRA Administrator each calendar year once the owner reaches the age of 73. The calculation is based on a mandatory government formula. The purpose of the RMD is to compel IRA owners to starting taking money out of their accounts during their retirement years.
- The “QCD” is the Qualified Charitable Distribution, first allowed in the Tax Act of 2006. For years 2007 – 2023, a donor could transfer up to \$100,000 each calendar year from their IRA directly to charitable organizations.
- Incorrectly referred to as the “Charitable IRA Rollover,” this amount would not be subject to the normal income tax, but it also would not result in a charitable income tax deduction.
- The QCD used for establishing a CGA or CRT became possible as a result of the Congressional Appropriations Act, 2023. That legislation allowed CGAs and CRTs to be established with up to \$50,000 transferred directly from IRA to charity, starting in 2023.



## All About IRAs (continued)

- The IRA donor would not be taxed on the IRA distribution, but also, would not receive a charitable deduction. All income payments from a CGA or CRT are categorized as ordinary (fully taxable) income.
- The use of the QCD for establishing a CGA or CRT is still limited to one year in a person's life. It is still not possible for an IRA owner to use QCDs for establishing split interest gifts in multiple calendar years.
- The maximum QCD for an outright gift increased to \$105,000 in 2024, and the maximum QCD for a CGA or CRT increased to \$53,000 in 2024.
- The maximum QCD amounts will increase to \$108,000 in 2025 for use as an outright charitable gift, and \$54,000 for use in establishing a CGA or CRT.
- In all QCD situations, the date of the charitable gift – whether outright or split-interest – is the date the money leaves the donor's IRA.



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## Conclusion

We hope you have enjoyed this sampling of the most common financial terms, abbreviations, and acronyms used in the arena of planned giving. We realize we may not have gotten to specific ones of interest.

As always, we urge you to contact us at PG Calc's Client Services Department with any follow-up questions. Please know, there are no silly questions, and we think it's better to ask the question than to remain in the dark about a particular term.

The financial world around us is always changing, and there will always be new terms and expressions that confound us. PG Calc has always been committed to helping fundraisers speak and work more effectively with donors. It's a group effort, after all.



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## Questions?

- Click the Q&A icon at the bottom of your screen.





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## Still Have a Question?

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