

Fundamentals of Planned Giving Part 1: Tax Fundamentals



Date: March 2, 2016

Time: 1:00 - 2:30 Eastern Time

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Humboldt State University





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

After Tax Cost of Giving

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	Personal Exemptions* in 2016: \$4,050 per person					
minus	Deductions* – "Itemized" or "Standard" Standard Deduction in 2016: \$12,600 for joint filers, \$6,300 for single filers					

Individuals with AGI up to \$10,350 or a family of four with AGI up to \$28,800 have no taxable income

equals Taxable Income

*Personal exemptions and itemized deductions are reduced or eliminated for high income taxpayers (see footnotes on page 3)

Pages 2-3



Form 1040

For the year Jan. 1-De	c. 31, 2012, or other tax year beginn	ina	2013	, ending	. 20		See	separate instructi	ons.
Your first name and		Last name	3.00.00	1,00000	1885			r social security nur	
		1200210000					325		
If a joint return, spor	use's first name and initial	Last name					Spo	use's social security n	umber
		CONSTRUME					1800	F 1	
Home address (num	ber and street), If you have a P.	O. box, see instructions	k.			Apt. no.		Make sure the SSNis	abov
							•	and on line 6c are o	
City, town or post offer	ce, state, and ZIP code. If you have	a foreign address, also oc	implete spaces belov	(see instruction	ns).		Pr	esidential Election Car	mpaigr
								k here if you, ar your spouse	
Foreign country name	10	For	eign province/state	/county	Forei	gn postal cod	abox	, want \$3 to go to this fund below will not change your	: Uheok
							refund	You _	
Filing Status	1 Single			4 🔲	Head of househ	old (with qua	lifying p	oerson). (See instructio	ons.) If
	2 Married filing joi	ntly (even if only one	had income)				ld but n	ot your dependent, en	ster thi
Check only one		parately. Enter spou	se's SSN above		child's name he				
box.	and full name he	re. ►		5	Qualifying wid	ow(er) with	depend		
Exemptions	6a Vourself. If so	meone can claim yo	u as a depender	it, do not ch	neck box 6a .		.]	Boxes checked on 6a and 6b	
								No. of children	-
	c Dependents:		opendent's curity number n	(3) Dependent's elationship to yo		nild under age 1 or child tax cre	fit	on 6c who: • lived with you	
	(1) First name Last	name social se	carry number 1	навонянір во ус	(see i	nstructions)		 did not live with you due to divorce 	
If more than four	8					님		or separation (see instructions)	
dependents, see	-		_			Ц			
instructions and	<u> </u>				_		_	Dependents on 6c not entered above	_
check here ►			1	10 00 00 0			_	Add numbers on	1
		cemptions claimed					-	lines above >	-
Income		ps, etc. Attach Form					7		-
		Attach Schedule B if est. Do not include o		. 8b	1 1 1 1		8a		+
Attach Form(s)		s. Attach Schedule E		-			9a		
W-2 here. Also	b Qualified dividend		ii required .	. 9b			ba		+
attach Forms W-2G and		redits, or offsets of					10		
1099-R if tax	To Taxable Foldings, c	redits, or offsets or i			S 400 S	2 2 3	11		+
was withheld.		or (loss). Attach Sche				1 1 2	12		+
		s). Attach Schedule				- П	13		+
If you did not		ses). Attach Form 47					14		\top
get a W-2, see instructions	15a IRA distributions				le amount .		15b		$^{-}$
see instructions.	16a Pensions and annu	ities 16a			le amount .		16b		$^{-}$
	17 Rental real estate,	royalties, partnershi	ps, S corporation	ns, trusts, et	c. Attach Sch	nedule E	17		
Enclose, but do not attach, any	18 Farm income or (lo	oss). Attach Schedul	e F				18		
payment. Also,	19 Unemployment co	mpensation					19		
please use	20a Social security ben	efits 20a	10 2017045 00	b Taxab	le amount		20b		
Form 1040-V.	21 Other income. List				*************	***************************************	21		\perp
	22 Combine the amoun	ts in the far right colun	nn for lines 7 throu		your total inc	ome 🕨	22		1
Adjusted	23 Educator expense	s		23		-			
Gross		enses of reservists, pe							
Income		nt officials. Attach Form		24		-			
income		count deduction. Att				_			
		Attach Form 3903				_			
		elf-employment tax. At				_			
		P, SIMPLE, and qua		. 28		_			
		alth insurance deduc		. 29					
	and the state of the state of the	ithdrawal of savings	1 1	. 30 31a		_			
				31a 32					
	32 IRA deduction . 33 Student loan inter	not deduction		. 32		-			
				. 33		_			
		n activities deduction.	Attach Form 800			_			
	ob Dollicotto productio	gh 35			- W. St W		36		

Form 1040 (2012	1							Page 2
Tax and	38	Amount from line 37 (ad	justed gross incom	0)		SWILLIAM VIN	38	
	39a	Check You were	born before Januar	y 2, 1948.	☐ Blind. To	tal boxes		
Credits			ras born before Jan					
Standard	b	If your spouse itemizes o	n a separate return o	or you were a	dual-status alien, ch	neck here▶ 39b	1	
Deduction for -	40	Itemized deductions (fr					40	
People who	41	Subtract line 40 from lin		100000000000000000000000000000000000000			41	
check any box on line	42	Exemptions, Multiply \$	8,800 by the number	r on line 6d.			42	
39a or 39b or	43	Taxable income. Subtr	act line 42 from line	41. If line 42	is more than line 4	1, enter -0-	43	
who can be claimed as a	44	Tax (see instructions). Ch					44	
dependent,	45	Alternative minimum to	x (see instructions	Attach Form	n 6251		45	
instructions.	46	Add lines 44 and 45					46	
All others: Single or	47	Foreign tax credit. Attac	h Form 1116 if requ	ired	47			
Married filing	48	Credit for child and deper	dent care expenses	Attach Form	2441 48			
separately, \$5,950	49	Education credits from I	form 8863, line 19		. 49			
Married filing	50	Retirement savings cor	tributions credit.	Attach Form	8880 50			
jointly or Qualifying widowier).	51	Child tax credit. Attach	Schedule 8812, if	required	. 51			
widowier). \$11,900	52	Residential energy credi	ts. Attach Form 560	35	. 52			
Head of	53	Other credits from Form: a	3800 b 88	01 c	53	- 1	3 4	
household, \$8,700	54	Add lines 47 through 53	These are your tol	tal credits .	4 4 4 4 4 4		54	
40,100	55	Subtract line 54 from lin	e 46. If line 54 is me	ore than line 4	6, enter -0-		55	
Other	56	Self-employment tax. At	tach Schedule SE				56	
Taxes	57	Unreported social secur	ty and Medicare to	x from Form:	a 4137 t	8919	57	
laxes	58	Additional tax on IRAs, or	her qualified retiren	ent plans, etc	Attach Form 5329	if required	58	
	59a	Household employment t	axes from Schedule	н			59a	
	b	First-time homebuyer are	dit repayment. Atta	sh Form 5405	if required		59b	
	60	Other taxes. Enter code(s) from instructions_	the state of the state of			60	
	61	Add lines 55 through 60	This is your total t	ax			61	
Payments	62	Federal income tax with	held from Forms W	-2 and 1099	. 62			
	63	2012 estimated tax payme	nts and amount app	lied from 2011	return 63		3	
If you have a qualifying	64a	Earned income credit (EIC)		64a			
child, attach	b.	Nontaxable combat pay el-	ection 64b		1000			
Schedule EIC.	65	Additional child tax credit	Attach Schedule 8	812	65			
	66	American opportunity or	edit from Form 886	3, line 8	66			
	67	Reserved			67	- 1		
	68	Amount paid with reque	st for extension to t	Sie	. 68			
	69	Excess social security an			69			
	70	Credit for federal tax on			70			
	71	Credits from Form: a 24					A	
	72	Add lines 62, 63, 64a, a					72	
Refund	73	If line 72 is more than lin					73	
	74a	Amount of line 73 you w	ant refunded to yo	u. If Form 88			74a	
Direct deposit?		Routing number			► c Type: Ch	cking Savings		
instructions.	► d	Account number						
	75	Amount of line 73 you wa						
Amount You Owe	76	Amount you owe. Subt		e o1. For deta	10,000	see instructions	76	
	77	Estimated tax penalty (s		A CONTRACTOR	. 77	TIM-		
Third Party		you want to allow another	r person to discust		ith the IHS (see ins		s. Complete be	low. No
Designee		nignee's		Phone		Personal identi	fication	
Sian		me. ► der penalties of perjury, I declar	- Batthan conc.	no. >	commence and the	number (PR)	To best of m	unterface and being
Here	Ber	der penalties of perjury, I declar y are true, correct, and complet	 Declaration of prepin 	er jother than to	spayer) in based on all s	information of which prep	arer has any know	indge.
	Yes	or signature		Date	Your accupation		Daytime phone	number
Joint return? See instructions.	1			1000	- and consequently		- Jan- prose	
Keep a copy for	94	ouse's signature. If a joint ret	en, both must see	Date	Spouse's occupat	ion	Fite RS serious	uan Identity Protection
your records.	1			5.77	-5	30/74	PRi enter it	
	Pri	nt/Type preparer's runse	Preparer's signal	LP:	_	Date	-	PTIN
Paid			- inputer is segran	-			Check if self-employed	
Preparer	-	n's name 🕨				First PM 8	_ ar singer/yea	
Use Only		or or reason.				Firm's EN ➤ Phone no.		
	- 12	m's address 🕨				1+1000 no.		Form 1040 (2012)



Gross Income

Income	7 Wages, salaries, tips, etc. Attach Form(s) W-2	7
moonie	8a Taxable interest. Attach Schedule B if required	8a
	b Tax-exempt interest. Do not include on line 8a 8b	
Attach Form(s)	9a Ordinary dividends. Attach Schedule B if required	9a
W-2 here. Also attach Forms	b Qualified dividends 9b	
W-2G and	10 Taxable refunds, credits, or offsets of state and local income taxes	10
1099-R if tax	11 Alimony received	11
was withheld.	12 Business income or (loss). Attach Schedule C or C-EZ	12
	13 Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ □	13
If you did not	14 Other gains or (losses). Attach Form 4797	14
get a W-2, see instructions.	15a IRA distributions . 15a b Taxable amount	15b
occ monactions.	16a Pensions and annuities 16a b Taxable amount	16b
	17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17
Enclose, but do	18 Farm income or (loss). Attach Schedule F	18
not attach, any payment. Also,	19 Unemployment compensation	19
please use	20a Social security benefits 20a b Taxable amount	20b
Form 1040-V.	21 Other income. List type and amount	21
	22 Combine the amounts in the far right column for lines 7 through 21. This is your total income ▶	22



Adjusted Gross Income

Adjusted Gross Income

22	Combine the amounts in the far right column for lines 7 through 2	21. This	is your total income 🕨	22	
23	Educator expenses	23		7.0	
24	Certain business expenses of reservists, performing artists, and				1
	fee-basis government officials. Attach Form 2106 or 2106-EZ	24			1
25	Health savings account deduction. Attach Form 8889	25			1
26	Moving expenses. Attach Form 3903	26			1
27	Deductible part of self-employment tax. Attach Schedule SE .	27			1
28	Self-employed SEP, SIMPLE, and qualified plans	28			1
29	Self-employed health insurance deduction	29			1
30	Penalty on early withdrawal of savings	30			1
31a	Alimony paid b Recipient's SSN ▶	31a			1
32	IRA deduction	32			1
33	Student loan interest deduction	33			1
34	Tuition and fees. Attach Form 8917	34			
35	Domestic production activities deduction. Attach Form 8903	35			1
36	Add lines 23 through 35			36	
37	Subtract line 36 from the 22. This is your adjusted gross	incom	e >	37	



Form 1040 – Page Two

Tax and Credits	38 39a	Amount from line 37 (adjusted gross income)	Blind. Total boxes	m	38	
Orcuito		if: Spouse was born before January 2, 1948,	Blind. J checked ► 39a	ш		
Standard	b	If your spouse itemizes on a separate return or you were a dual-statu	us alien, check here► 3	39b		
Deduction for -	40	Itemized deductions (from Schedule A) or your standard deduc	tion (see left margin) .	8 5	40	
• People who	41	Subtract line 40 from three 60			41	
check any box on line	W	Exemptions. Multiply \$3,800 by the number on line 6d		15 1/4	42	
39a or 39b or who can be	43	Taxable Income. Submost line 10 from the 44 Killing 40 is not of the first 11, order 10.				
claimed as a	44	Tax (see instructions). Check if any from: a Form(s) 8814 b F	44			
dependent, see	45	Alternative minimum tax (see instructions). Attach Form 6251			45	
instructions.	46	Add lines 44 and 45		-	46	33
All others: Single or	47	Foreign tax credit. Attach Form 1116 if required	47			
Married filing	48	Credit for child and dependent care expenses. Attach Form 2441	48			
separately, \$5.950	49	Education credits from Form 8863, line 19	49			
Married filing	50	Retirement savings contributions credit. Attach Form 8880	50			
ointly or Qualifying	51	Child tax credit. Attach Schedule 8812, if required	51			
widow(er), \$11.900	52	Residential energy credits. Attach Form 5695	52			
Head of	53	Other credits from Form: a 3800 b 8801 c	53			
household,	54	Add lines 47 through 53. These are your total credits		-	54	
\$8,700	55	Subtract line 54 from line 46. If line 54 is more than line 46, enter -	-0		55	



Form 1040 – Page Two

Tax and	38	Amount from line 37 (adjusted gross income)			_	38	+
Credits	39a	if: You were born before January 2, 1948, Spouse was born before January 2, 1948,	Blind. Blind.	Total boxes checked ► 39a			
Standard	b	If your approach itemizes on a separate return or you were a dual-sta	atus alie	en, check here.			
Deduction for -		Itemized deductions (from Schedule A) or your standard dedu	uction	(see left margin) .	20 5	40	
• People who	41	Subtract in 10 from line 38			77	41	1
check any box on line	42	Exemptions. Multiply \$3,800 by the number on line 6d	18. 35.		15 17	42	
39a or 39b or who can be	43	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0					
claimed as a	44	Tax (see instructions). Check if any from: a Form(s) 8814 b	ction	44			
dependent, see	45	Alternative minimum tax (see instructions). Attach Form 6251				45	
nstructions.	46	Add lines 44 and 45	1. 1		-	46	
• All others:	47	Foreign tax credit. Attach Form 1116 if required	47				T
Single or Married filing	48	Credit for child and dependent care expenses. Attach Form 2441	48			1	
separately, \$5,950	49	Education credits from Form 8863, line 19	49				
Married filing	50	Retirement savings contributions credit. Attach Form 8880	50				
ointly or Qualifying	51	Child tax credit. Attach Schedule 8812, if required	51				
widow(er),	52	Residential energy credits. Attach Form 5695	52				
\$11,900 Head of	53	Other credits from Form: a 3800 b 8801 c	53				
household,	54	Add lines 47 through 53. These are your total credits	-	The second second	1	54	1
88,700	55	Subtract line 54 from line 46. If line 54 is more than line 46, ente	1	* * * * * *	- Fileson	55	+



Form 1040 – Page Two

Tax and	38	Amount from line 37 (adjusted gross income)	9 4	2	, W	38	
Credits	39a		Blind. Blind.	10.00			
Standard	b	If your spouse itemizes on a separate return or you were a dual-sta	itus alie	en, check here► :	396		
Deduction for -	40	Itemized deductions (from Schedule A) or your standard dedu	ction	(see left margin) .	8 5	40	
People who	41	Subtract line 40 from line 38 , , , , ,				41	
check any box on line	42	Exemptions, multiply \$3,800 by the number on line 6d	atc 150	#1 KU BOOM OF 15		42	
39a or 39b or who can be	13	Taxable income. Subtract line 42 from line 41, If line 42 is more	e than	line 41, enter -0		43	
claimed as a	44	foo instructions). Check if any from: a Form(s) 8814 b	Form	4972 c 962 ele	ction	-11	
dependent, see	45	Alternative minimum tax (see instructions). Attach Form 6251				45	
nstructions.	46	Add lines 44 and 45	8.3		-	46	
All others: Single or	47	Foreign tax credit. Attach Form 1116 if required	47				
Married filing	48	Credit for child and dependent care expenses. Attach Form 2441	48				
separately, \$5,950	49	Education credits from Form 8863, line 19	49				
Married filing	50	Retirement savings contributions credit. Attach Form 8880	50				
jointly or Qualifying	51	Child tax credit. Attach Schedule 8812, if required	51				
widow(er), \$11,900	52	Residential energy credits. Attach Form 5695	52				
Head of	53	Other credits from Form: a 3800 b 8801 c	53				
household, \$8,700	54	Add lines 47 through 53. These are your total credits	4 4		-	54	
30,700	55	Subtract line 54 from line 46. If line 54 is more than line 46, enter	r -0-		-	55	



Graduated and Progressive Rates

- Rates apply to taxable income
- Rates range from 10% to 39.6%
- Effective rate is less than marginal rate
- Charitable deductions reduce taxable income
 - saving taxes at highest marginal rate



2014 Tax Rates – Married Filing Jointly

Taxable Income		Tax Rate
\$1 to \$18,550	-	10%
\$18,551 to \$75,300	_	15%
\$75,301 to \$151,900	-	25%
\$151,901 to \$231,450	_	28%
\$231,451 to \$413,350	-	33%
\$413,351 to \$466,950	_	35%
\$466,951 and over	-	39.6%



Effective Tax Rate

Taxable income \$175,000, married filing jointly:

Taxable Income	Tax Rate	Tax Due
First \$18,550	10%	\$1,855
Next \$56,750	15%	\$8,513
Next \$76,600	25%	\$19,150
Remaining \$23,100	28%	\$6,468
TOTAL: \$175,000		\$35,986

Marginal Tax Rate = 28% Effective Tax Rate = 20% (\$36k/\$175k)

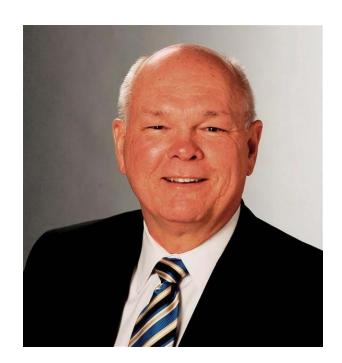


Poll Question #1

Answer



Questions and Answers





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
- Capital gains tax is avoided 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 ...
- More than \$5,000 qualified appraisal required to determine value



After-tax Cost of a Gift

Assume a donor in the 28% 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	2,800	2,800
Capital gains taxes avoided		1,200
After-tax cost of gift	\$7,200	\$6,000



Information for Poll Question:

A donor contributes 100 shares of stock which are trading for \$128 per share at the time the transfer is made. The charity sells the stock later that day for \$127 per share.



Poll Question #2

Answer



Questions and Answers





Deduction Limitations

- 50% 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
- 30%/20% of AGI limits for gifts "for the use of" rather than "to" charity (e.g. private fdns)



Quid Pro Quo Reductions

- Amount of deduction is reduced by value of goods or services made available as a result of contribution
- Applies to premiums offered as a result of contribution as well as "benefit" events
- Must be disclosed in solicitation
- Applies if goods or services are offered regardless whether or nor 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



Poll Question #3

Answer



Questions and Answers





Transfer Taxes

- Tax paid by the giver whenever something of value is given to another individual
- Annual gift exclusion: \$14,000 per individual
- Lifetime exclusion: \$5.45 million tax free
 - Cumulative total of lifetime gifts plus gifts at death
 - Unlimited exclusion on transfers to spouse
 - Portability of unused deceased spousal exclusion



Transfer Taxes

- Step-up in basis for transfers at death only
- 40% rate on taxable transfers
- Less than 1% of all estates are taxable



State Taxes

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



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

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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

Pages 14-16



Questions and Answers





Still Have a Question?

Contact: Craig Wruck

Vice President, Advancement

Humboldt State University

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