



# Fundamentals of Planned Giving

## Part 1: Tax Fundamentals



Date: March 2, 2016  
Time: 1:00 – 2:30 Eastern Time  
Presenter: Craig C. Wruck  
Vice President, Advancement  
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	
	<b>Gross Income</b>
minus	Adjustments to Income
<b>equals</b>	<b>Adjusted Gross Income (AGI)</b>
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
<b>equals</b>	<b>Taxable Income</b>

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

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





# Gross Income

<b>Income</b>	7	Wages, salaries, tips, etc. Attach Form(s) W-2		7	
	8a	Taxable interest. Attach Schedule B if required		8a	
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.	b	Tax-exempt interest. Do not include on line 8a	8b		
	9a	Ordinary dividends. Attach Schedule B if required		9a	
If you did not get a W-2, see instructions.	b	Qualified dividends	9b		
	10	Taxable refunds, credits, or offsets of state and local income taxes		10	
Enclose, but do not attach, any payment. Also, please use Form 1040-V.	11	Alimony received		11	
	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 <input type="checkbox"/>		13	
	14	Other gains or (losses). Attach Form 4797		14	
	15a	IRA distributions	15a	b Taxable amount	15b
	16a	Pensions and annuities	16a	b Taxable amount	16b
	17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		17	
	18	Farm income or (loss). Attach Schedule F		18	
	19	Unemployment compensation		19	
	20a	Social security benefits	20a	b Taxable amount	20b
	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

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





# Form 1040 – Page Two

Form 1040 (2012) Page **2**

<b>Tax and Credits</b>	<b>38</b>	Amount from line 37 (adjusted gross income)		<b>38</b>	
	<b>39a</b>	Check <input type="checkbox"/> You were born before January 2, 1948, <input type="checkbox"/> Blind. <input type="checkbox"/> Spouse was born before January 2, 1948, <input type="checkbox"/> Blind. Total boxes checked ▶ 39a <input type="checkbox"/>			
<b>Standard Deduction for –</b> • People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions. • All others: Single or Married filing separately, \$5,950 Married filing jointly or Qualifying widow(er), \$11,900 Head of household, \$8,700	<b>b</b>	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b <input type="checkbox"/>			
	<b>40</b>	Itemized deductions (from Schedule A) or your standard deduction (see left margin)		<b>40</b>	
	<b>41</b>	Subtract line 40 from line 38		<b>41</b>	
	<b>42</b>	<b>Exemptions.</b> Multiply \$3,800 by the number on line 6d.		<b>42</b>	
	<b>43</b>	<b>Taxable income.</b> Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-		<b>43</b>	
	<b>44</b>	<b>Tax</b> (see instructions). Check if any from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972 c <input type="checkbox"/> 962 election		<b>44</b>	
	<b>45</b>	<b>Alternative minimum tax</b> (see instructions). Attach Form 6251		<b>45</b>	
	<b>46</b>	Add lines 44 and 45		<b>46</b>	
	<b>47</b>	Foreign tax credit. Attach Form 1116 if required	<b>47</b>		
	<b>48</b>	Credit for child and dependent care expenses. Attach Form 2441	<b>48</b>		
	<b>49</b>	Education credits from Form 8863, line 19	<b>49</b>		
	<b>50</b>	Retirement savings contributions credit. Attach Form 8880	<b>50</b>		
	<b>51</b>	Child tax credit. Attach Schedule 8812, if required.	<b>51</b>		
	<b>52</b>	Residential energy credits. Attach Form 5695	<b>52</b>		
	<b>53</b>	Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	<b>53</b>		
<b>54</b>	Add lines 47 through 53. These are your <b>total credits</b>		<b>54</b>		
<b>55</b>	Subtract line 54 from line 46. If line 54 is more than line 46, enter -0-		<b>55</b>		



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## 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

<b>Taxable Income</b>		<b>Tax Rate</b>
\$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
<b>TOTAL: \$175,000</b>		<b>\$35,986</b>

Marginal Tax Rate = 28%

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

Page 3





# 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

Pages 12-13



# 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

Pages 14-16



## 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  
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