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## 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



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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

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

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## Individual Income Tax

<b>Taxable Income</b>	
<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
<b>minus</b>	<b>Deductions* – "Itemized" or "Standard"</b> 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)

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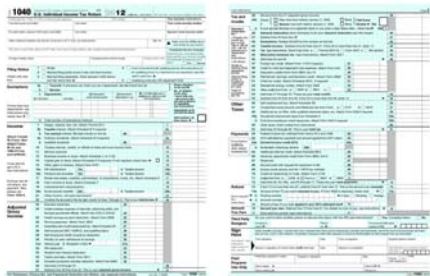
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## Form 1040



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## 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%

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## 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)

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## Poll Question #1

- Answer

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## Questions and Answers



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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
- Capital gains tax is avoided on transfer of long term capital gain property to charity

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## 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

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### 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

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### 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.

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### Poll Question #2

- Answer

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## Questions and Answers



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## 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)

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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 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

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## 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

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## 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

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## Poll Question #3

- Answer

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## Questions and Answers



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## 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

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## Transfer Taxes

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

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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
- Most State taxes are deductible for Federal income tax purposes

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## 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

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## Questions and Answers



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## Still Have a Question?

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**E-mail:** [craig.wruck@gmail.com](mailto:craig.wruck@gmail.com)

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