


**PG Calc** HOUR PARTNER IN PLANNED GIVING SUCCESS

### Taxation Basics for Fundraisers



Date: August 26, 2021  
 Time: 1:00 – 2:30 Eastern  
 Presenter: Craig C. Wruck  
 Senior Advisor  
 PG Calc

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### Agenda

- After-tax cost of giving
- Income tax
  - ✓ Effective and marginal rates
  - ✓ Capital gains tax
- 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 Giving

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 2021: \$12,550 single, \$25,100 married filing jointly)*
equals	Taxable Income

\*Amounts adjusted for inflation each year

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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, saving taxes at highest marginal rate

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### 2021 Tax Rates

Rate	Single	Married Filing Jointly
10%	\$0 to \$9,950	\$1 to \$19,900
12%	\$9,951 to \$40,525	\$19,901 to \$81,050
22%	\$40,526 to \$86,375	\$81,051 to \$172,750
24%	\$86,376 to \$164,925	\$172,751 to \$329,850
32%	\$164,926 to \$209,425	\$329,851 to \$418,850
35%	\$209,426 to \$523,600	\$418,851 to \$628,300
37%	\$523,601 and over	\$628,301 and over

Brackets are adjusted annually for inflation

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### Effective vs. Marginal Tax Rates

\$200,000 in taxable income (married filing jointly)

Taxable Income	Tax Rate	Tax Due
First \$19,900	10%	\$1,990
Next \$61,150	12%	\$7,338
Next \$91,700	22%	\$20,174
Last \$27,250	24%	\$6,540
TOTAL: \$200,000		\$36,042

Marginal Tax Rate = 24%

Effective Tax Rate = 18% (\$36k/\$200k)

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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 at all 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 both with equivalent knowledge of the facts and circumstances surrounding the transaction and neither being compelled to complete the transaction
- 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 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	
\$10,000	\$10,000	Contribution
- 2,400	- 2,400	Income taxes saved
- -	- 1,200	Capital gains taxes avoided
\$7,600	\$6,400	After-tax cost of gift

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### Questions?



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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
- Special rule for 2021 only: 100% limit for contributions of cash to public charities

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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
- The reduction is for the value of the goods and services to the donor, not the cost to the organization
- 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

The year in which tax 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 documentation to substantiate all charitable deductions
  - ✓ Cancelled checks or personal notations are not sufficient
  - ✓ For deductions of more than \$250, written acknowledgment from the charity is also required
- 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 acknowledgement by appraiser and the charity

\* Deductions over \$500 for contributions of clothing require an appraisal

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### Personal Property

“Related Use” rule limits deduction to cost basis

- Consider a machine shop owner who contributes a Bridgeport Milling Machine now worth \$17,500 with a book value (cost basis minus depreciation) of \$5,000



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### Ordinary Income Property

Deduction limited to amount that *would not be taxed* as ordinary income if item were sold – generally, cost basis

- Gift of investments held one-year or less: deduction limited to cost basis because short-term capital gain is taxed as ordinary income
- Gift of services: no deduction because providing services for a fee would generate taxable income
- Consider an artist who contributes her own work of art: deduction limited to cost of materials because the rest would be ordinary income if she sold the item

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### Capital Loss (Depreciated) Property

"Friends don't let friends give when depreciated."

- Securities that are now worth less than the donor paid generally do not make tax-wise charitable gifts
- Charitable deduction will be for current fair market value – less than the donor paid
- Selling might make better sense

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### Transfer Taxes

- A tax *paid by the giver* whenever something of value is given to another individual
- Annual gift exclusion: \$15,000 per individual
- Lifetime exclusion: \$11.7 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

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### Transfer Taxes - Summary

Up to \$15,000 per year	No taxes or reporting required
More than \$15,000 in any year	File a Federal Gift Tax Return, but gift tax is due only after lifetime total exceeds \$11.7* million
Up to \$11.7 million in lifetime and estate giving	No Federal Gift or Estate Tax
Over \$11.7 million	Total combined taxable lifetime and estate giving in excess of \$11.7* million is taxed at 40%

\* \$11.7 million for those dying in 2021, adjusted annually for inflation

- Currently, fewer than 0.1% of Americans are affected by the Transfer Tax

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### Transfer Taxes – Carryover vs. Stepped-up Basis

- Transfers during lifetime carry over cost basis to the recipient – when sold recipient owes capital gains tax on appreciation in value since donor's acquisition
- Transfers at death receive a step-up in basis to the date of death – when sold recipient owes capital gains tax only on appreciation since date of death

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### Split Interest Gifts

- Donor divides or splits interests, irrevocably contributing remainder, retaining right to income
- Charitable deduction for calculated value of contribution of remainder
- Calculation based upon ages of beneficiaries and amount to be paid using an assumed interest rate, the "IRS Discount Rate" (or "7520 Rate" or "CMFR" or "AFR")
- Larger deductions: older and fewer beneficiaries, smaller payouts
- Smaller deductions: younger and more beneficiaries, higher payouts

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### Split Interest Gift Deduction Examples

\$100,000 contribution to charitable remainder unitrust

Payout	Beneficiary Age(s)	Deduction
5%	72	\$55,250
7%	72	\$44,804
5%	82	\$70,535
7%	82	\$62,082
5%	82 + 72	\$50,495
7%	82 + 72	\$39,125

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**Questions?**



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**Still Have a Question?**

**Contact:** Craig Wruck  
Senior Advisor  
PG Calc

**E-mail:** [cwruck@pgcalc.com](mailto:cwruck@pgcalc.com)

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