



Fundamentals of Planned Giving

Part 1: Tax Fundamentals



Date: July 16, 2014
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	
	Gross Income
minus	Adjustments to Income
equals	Adjusted Gross Income (AGI)
minus	Personal Exemptions* in 2014: \$3,950 per person
minus	Deductions* – “Itemized” or “Standard” Standard Deduction in 2014: \$12,400 for joint filers, \$6,200 for single filers
equals	Taxable Income

Individuals with AGI up to \$10,150 or a family of four with AGI up to \$28,200 have no taxable income

*Reduced or eliminated for high income taxpayers



Form 1040

Form 1040 Department of the Treasury - Internal Revenue Service (99) **2012** U.S. Individual Income Tax Return OMB No. 1545-0047 IRS (Use Only - Do not write or staple in this space)

For the year Jan. 1-Dec. 31, 2012, or other tax year beginning 2012, ending 2012 See separate instructions.

Your first name and initial Last name Your social security number

If a joint return, spouse's first name and initial Last name Spouse's social security number

Home address (number and street). If you have a P.O. box, see instructions. Apt. no. Make sure the SSN(s) above and on line 6c are correct.

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).

Foreign country name Foreign province/state/county Foreign postal code Presidential Election Campaign Check here if you, or your spouse (filing jointly), will file to go to this fund. Check also below will not charge your tax or refund. Yes Spouse You Spouse

Filing Status

1 Single
 2 Married filing jointly (even if only one had income)
 3 Married filing separately. Enter spouse's SSN above and full name here. 4 Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. 5 Qualifying widow(er) with dependent child

Exemptions

6a Yourself. If someone can claim you as a dependent, do not check box 6a.
 b Spouse
 c Dependents:
 (1) First name Last name (2) Dependent's social security number (3) Dependent's relationship to you (4) If a child under age 17 qualifying for child tax credit (see instructions)

If more than four dependents, see instructions and check here

d Total number of exemptions claimed

Income

7 Wages, salaries, tips, etc. Attach Form(s) W-2
 8a Taxable interest. Attach Schedule B if required
 8b Tax-exempt interest. Do not include on line 8a
 9a Ordinary dividends. Attach Schedule B if required
 9b Qualified dividends
 10 Taxable refunds, credits, or offsets of state and local income taxes
 11 Alimony received
 12 Business income or (loss). Attach Schedule C or C-EZ
 13 Capital gain or (loss). Attach Schedule D if required. If not required, check here
 14 Other gains or (losses). Attach Form 4797
 15a IRA distributions 15a Taxable amount 15b Taxable amount
 16a Pensions and annuities 16a Taxable amount 16b Taxable amount
 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E
 18 Farm income or (loss). Attach Schedule F
 19 Unemployment compensation
 20a Social security benefits 20a Taxable amount 20b Taxable amount
 21 Other income. List type and amount
 22 Combine the amounts in the far right column for lines 7 through 21. This is your total income

Adjusted Gross Income

23 Educator expenses
 24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ
 25 Health savings account deduction. Attach Form 8889
 26 Moving expenses. Attach Form 3903
 27 Deductible part of self-employment tax. Attach Schedule SE
 28 Self-employed SEP, SIMPLE, and qualified plans
 29 Self-employed health insurance deduction
 30 Penalty on early withdrawal of savings
 31a Alimony paid b Recipient's SSN
 32 IRA deduction
 33 Student loan interest deduction
 34 Tuition and fees. Attach Form 8917
 35 Domestic production activities deduction. Attach Form 8803
 36 Add lines 23 through 35
 37 Subtract line 36 from line 22. This is your adjusted gross income

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form 1040 (2012)

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Tax and Credits

38 Amount from line 37 (adjusted gross income)
 39a Check You were born before January 2, 1948. Blind Total bases
 Check Spouse was born before January 2, 1948. Blind checked 39a
 b If your spouse itemizes on a separate return or you were a dual-status alien, check here 39b
Standard Deduction For-
 40 Itemized deductions (from Schedule A) or your standard deduction (see left margin)
 41 Subtract line 40 from line 38
 42 Exemptions. Multiply \$3,800 by the number on line 6d.
 43 Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-
 44 Tax (see instructions). Check if any from: a Form(s) 8814 b Form 4972 c 962 election
 45 Alternative minimum tax (see instructions). Attach Form 6251
 46 Add lines 44 and 45
 47 Foreign tax credit. Attach Form 1116 if required
 48 Credit for child and dependent care expenses. Attach Form 2441
 49 Education credits from Form 8803, line 19
 50 Retirement savings contributions credit. Attach Form 8880
 51 Child tax credit. Attach Schedule 8812, if required.
 52 Residential energy credits. Attach Form 5695
 53 Other credits from Form: a 2800 b 8801 c
 54 Add lines 47 through 53. These are your total credits
 55 Subtract line 54 from line 46. If line 54 is more than line 46, enter -0-
Other Taxes
 56 Self-employment tax. Attach Schedule SE
 57 Unreported social security and Medicare tax from Form: a 4137 b 8019
 58 Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required
 59a Household employment taxes from Schedule H
 b First-time homebuyer credit repayment. Attach Form 5405 if required
 60 Other taxes. Enter code(s) from instructions
 61 Add lines 55 through 60. This is your total tax

Payments

62 Federal income tax withheld from Forms W-2 and 1099
 63 2012 estimated tax payments and amount applied from 2011 return
 64a Earned income credit (EIC)
 b Nonrefundable combat pay election (64b)
 65 Additional child tax credit. Attach Schedule 8812
 66 American opportunity credit from Form 8803, line 8
 67 Reserved
 68 Amount paid with request for extension to file
 69 Excess social security and tier 1 RRTA tax withheld
 70 Credit for federal tax on fuels. Attach Form 4136
 71 Credits from Form: a 2439 b 8001 c 8001 d 8005
 72 Add lines 62, 63, 64a, and 65 through 71. These are your total payments
 73 If line 72 is more than line 61, subtract line 61 from line 72. This is the amount you overpaid
 74a Amount of line 73 you want refunded to you. If Form 8898 is attached, check here 74a
 b Routing number c Type: Checking Savings
 75 Amount of line 73 you want applied to your 2013 estimated tax 75
Amount You Owe
 76 Amount you owe. Subtract line 72 from line 61. For details on how to pay, see instructions
 77 Estimated tax penalty (see instructions)

Refund

Direct deposit? See instructions.
 d Account number
 78 Amount of line 73 you want applied to your 2013 estimated tax 78
Third Party Designee
 Do you want to allow another person to discuss this return with the IRS (see instructions)? Yes. Complete below. No
 Designee's name Phone no. Personal identification number (PIN)
Sign Here
 Under penalties of perjury I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.
 Your signature Date Your occupation Daytime phone number
 Spouse's signature. If a joint return, both must sign. Date Spouse's occupation
 If the IRS sent you an Identity Protection PIN, enter it here (see instructions) PIN If self-employed

Paid Preparer Use Only

Print/Type preparer's name Preparer's signature Date
 Firm's name Firm's EIN
 Firm's address Phone no.

Form 1040 (2012)



Gross Income

Income	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

Adjusted Gross Income	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 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 adjusted gross income ▶	37		



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	39a	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"/>			
Standard Deduction for – • 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	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b <input type="checkbox"/>			
	40	Itemized deductions (from Schedule A) or your standard deduction (see left margin)		40	
	41	Subtract line 40 from line 38		41	
	42	Exemptions. Multiply \$3,800 by the number on line 6d.		42	
	43	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-		43	
	44	Tax (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		44	
	45	Alternative minimum tax (see instructions). Attach Form 6251		45	
	46	Add lines 44 and 45		46	
	47	Foreign tax credit. Attach Form 1116 if required	47		
	48	Credit for child and dependent care expenses. Attach Form 2441	48		
	49	Education credits from Form 8863, line 19	49		
50	Retirement savings contributions credit. Attach Form 8880	50			
51	Child tax credit. Attach Schedule 8812, if required	51			
52	Residential energy credits. Attach Form 5695	52			
53	Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	53			
54	Add lines 47 through 53. These are your total credits		54		
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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

Taxable Income		Tax Rate
\$1 to \$18,150	-	10%
\$18,151 to \$73,800	-	15%
\$73,801 to \$148,850	-	25%
\$148,851 to \$226,850	-	28%
\$226,851 to \$405,100	-	33%
\$405,101 to \$457,600	-	35%
\$457,601 and over	-	39.6%



Effective Tax Rate

Taxable income \$160,000, married filing jointly:

Taxable Income	Tax Rate	Tax Due
First \$18,150	10%	\$1,815
Next \$55,650	15%	\$8,348
Next \$75,050	25%	\$18,763
Remaining \$11,150	28%	\$3,122
TOTAL: \$160,000		\$32,048

Marginal Tax Rate = 28%

Effective Tax Rate = 20% (\$32k/\$160k)



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



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



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: \$5.34 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 11-13



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 14-15



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 14-15