

Fundamentals of Planned Giving Part 1: Tax Fundamentals



Date: July 16, 2014

Time: 1:00 – 2:30 Eastern Time

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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	Individuala
equals	Adjusted Gross Income (AGI)	Individuals with AGI up to
minus	Personal Exemptions* in 2014: \$3,950 per person	\$10,150 or a family of four
minus	Deductions* – "Itemized" or "Standard" Standard Deduction in 2014: \$12,400 for joint filers, \$6,200 for single filers	with AGI up to
equals	Taxable Income	income

^{*}Reduced or eliminated for high income taxpayers

Pages 2-3



Form 1040

For the year Jan. 1-De	c. 31, 2012, or other tax year beginn	ina	, 2012, ending	.20		See separate instructi	ions.
Your first name and		Last name	100-01-0-0-0	1000		Your social security nur	
		1700230000					
If a joint return, spo	use's first name and initial	Last name				Spouse's social security n	number
		Control District				I I	
Home address (nun	nber and street). If you have a P.	O. box, see instructions.			Apt. no.	▲ Make sure the SSN/s	s) abov
						and on line 6c are c	
City, town or post offi	oe, state, and ZIP code. If you have	a foreign address, also comple	te spaces below (see instruction	s).		Presidential Election Car	mpaigr
						Check here if you, or your spous	
Foreign country nar	ne	Foreign	province/state/county	Foreign p	ostal code	joinfly, want \$3 to go to this fund a box below will not change your	f. Uheok r fax or
						refund. You	
Filing Status	1 Single		4 🗌 н	ead of household	(with qualit	ying person). (See instruction	ons.) If
	 Married filing join 	ntly (even if only one had				but not your dependent, er	nter thi
Check only one		parately. Enter spouse's		hild's name here.			
box.	and full name he	ere. ►	5 🗆 Q	lualifying widow	(er) with de		
Exemptions	6a Vourself. If so	omeone can claim you as	a dependent, do not che	eck box 6a .		Boxes checked on 6a and 6b	
						. No. of children	-
	c Dependents:	(2) Depend social security	ent's (3) Dependent's number relationship to you	(4) ✓ if child qualifying for c	hild tax credit	on 6c who: • lived with you	
	(1) First name Last	name social security	number relationship to you	(see instr	uctions)	did not live with you due to divorce	
If more than four	8			-		or separation (see instructions)	
dependents, see				+	1		-
instructions and	-)	Dependents on 6c not entered above	_
check here 🕨 🗌	d Total number of e	xemptions claimed .	N			Add numbers on lines above	1
Process and annual re-		ips, etc. Attach Form(s) V	10			7	-
Income		Attach Schedule B if requ				8a	_
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W-2 here. Also attach Forms	b Qualified dividend					ou .	+
W-2G and		redits, or offsets of state				10	
1099-R if tax				10 5005 03 0		11	\top
was withheld.			C or C-EZ			12	
			required. If not required, o			13	
If you did not get a W-2.	14 Other gains or (los	sses). Attach Form 4797				14	
get a vv-z, see instructions	15a IRA distributions	. 15a	b Taxable	amount .		15b	
	16a Pensions and annu	ities 16a	b Taxable	amount .		16b	
	17 Rental real estate,	royalties, partnerships, 9	corporations, trusts, etc	. Attach Sched	ule E	17	
Enclose, but do not attach, any						18	
payment. Also,		empensation				19	-
please use	20a Social security ben		b Taxable	amount .		20b	+
Form 1040-V.		t type and amount				21	+
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Gross		penses of reservists, perform nt officials. Attach Form 210					
Income		count deduction, Attach			-		
		Attach Form 3903			-		
		elf-employment tax. Attach					
		P, SIMPLE, and qualified					
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	33 Student loan inter						
	34 Tuition and fees.	Attach Form 8917.	34				
	35 Domestic production	n activities deduction. Atta	ch Form 8903 35				
	36 Add lines 23 throu	igh 35				36	\perp
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Tax and Credits 39a	Page 2
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Sign Additional tax on IRIA- other qualified retirement plans, etc. Altach Form 520 # required 59a Household werployment taxes from Schedule H b First-firms homebuper credit reportment. Attach Form 505 if required 50b 60 Cher taxes. Error code(i) from instructions 61 Add times 55 through 60. This is your total tax Fyou have 8 63 2012 estimated tax payments and amount applied from 2011 return 63 3 2012 estimated tax payments and amount applied from 2011 return 64 Add since code (ii) b Nortaxusble combat pay election 64b 65 Addisional child tax credit. Altach Schedule 8812 66 Annount paid with request for extension to file 67 Reserved 68 Annount paid with request for extension to file 69 Excess social security and set in FRITA tax withheld 69 Excess social security and set in FRITA tax withheld 60 File of the file of	
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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 92 92 93 93 94 94 94 94 94 94	_
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# you have 8 64a Earned income credit (RIC) 64b 64b	
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66 American opportunity credit from Form 8803, line 8	
67 Reserved 68 Amount poid with request for extension to file 69 Escens social security and test 1 RFITA tax withhald 70 Credit for federal tax on halls. Althor Form 4150. 71 Credit some max = 2439 b	
68 Amount paid with request for extension to file 69 Excess social security did not 1 RPITA tax withhold 70 Credit for federal tax on buils. Attach Form 4136 70 71 Credit for federal tax on buils. Attach Form 4136 70 72 And lines 62, 62, 68, and 65 monopoly 71. These are your total payments > 72 Refund 73 If line 72 is more than line 61, subtract line 61 from line 72. This is the amount you overpaid 73 Amount of line 73 you want refunded to you. If Form 888 is attached, check here > 74a Description 75 Bottom refunded to you. If Form 888 is attached, check here > 74a Description 75 Amount of line 73 you want refunded to you. If Form 888 is attached, check here > 74a Amount 16 Account number 80 Account number 80 Account number 90 Amount 17 Amount of line 73 you want applied to your 2013 estimated tax > 75 Amount 17 Amount 17 Amount 19 Amount 19 Yes Complete below. 77 Estimated tax penalty (see instructions) 77 Estimated tax penalty (see instructions) 78 Do you want to allow another person to discuss this return with the IRS (see instructions) Person to discuss this return with the IRS (see instructions) Penalty Dougless Amount 19 Amount 19 Penalty (see instructions) Penalty 19 Yes. Complete below. Penalty 19 Yes. Complete below. Penalty 19 Yes. Complete below. Penalty 19 Yes (see instructions) In the profits of propy; (seksen but these examend the return and companying advadate and statement, and to be to be to the yourchape and statement, and the processing the property to thought your processing the property includate and statement, and the processing the property includate and statement, and the tension of the profits of propy; (seksen but these examend the return and companying advadate and statement, and to be to be to the profits of propy; (seksen but the secure of the tension of the profits of the total for the profits of the total for the profits of the profits of the profits of the prof	
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Sign Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge at	
Sign Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge as	
Here they are true, correct, and complete. Declaration of preparer (other than tempaper) in based on all information of which preparer has any knowledge.	d belief.
Joint return? See Your signature Date Your occupation Daytime phone rounder	
instructions.	
Keep a copy for Spouse's signature. If a joint return, both must sign. Date Spouse's occupation If the RS sent you an identify your records.	Protection
Pere (see inst.)	
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Fam's address ▶ Phone no.	240 2012



Gross Income

Income	7	Wages, salaries, tips, etc. Attach Form(s) W-2	7			
moonic	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				
was withheld.	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 ▶ □	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 monocions.	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		2.0	Г
24	Certain business expenses of reservists, performing artists, and				ı
	fee-basis government officials. Attach Form 2106 or 2106-EZ	24			ı
25	Health savings account deduction. Attach Form 8889 .	25			ı
26	Moving expenses. Attach Form 3903	26			ı
27	Deductible part of self-employment tax. Attach Schedule SE .	27			ı
28	Self-employed SEP, SIMPLE, and qualified plans	28			ı
29	Self-employed health insurance deduction	29			ı
30	Penalty on early withdrawal of savings	30			
31a	Alimony paid b Recipient's SSN ▶	31a			
32	IRA deduction	32			
33	Student loan interest deduction	33			
34	Tuition and fees. Attach Form 8917	34			ı
35	Domestic production activities deduction. Attach Form 8903	35			
36	Add lines 23 through 35	, ,		36	1
37	Subtract line 36 from the 22. This is your adjusted gross	incom	0	37	1



Form 1040 – page two

Tax and	38	Amount from line 37 (adjusted gross income)	4 4		38	6	
Credits	39a		Blind.				
Standard	ь	If your spouse itemizes on a separate return or you were a dual-sta			1		
Deduction for -	40	Itemized deductions (from Schedule A) or your standard dedu			40		
• People who	41	Subtract line 40 feet the 80		proportion consociation and the second	41	8	
check any box on line	10	Exemptions. Multiply \$3,800 by the number on line 6d	100	** ********* ** ** **	42		
39a or 39b or	43	Taxable income. Subject lime 10 from time 44. If time 40 is more than time 11, error -u-					
who can be claimed as a	44	Tax (see instructions). Check if any from: a Form(s) 8814 b Form 4972 c 962 election					
dependent, see	45	Alternative minimum tax (see instructions). Attach Form 6251			45	8	
nstructions.	46	Add lines 44 and 45	V V		46		
• All others:	47	Foreign tax credit. Attach Form 1116 if required	47				
Single or 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, \$8,700	54	Add lines 47 through 53. These are your total credits			54		
10,100	55	Subtract line 54 from line 46. If line 54 is more than line 46, enter	r -0-		55		- 4



Form 1040 – page two

Tax and Credits	38 39a	Amount from line 37 (adjusted gross income)	Blind.	Total boxes		38	-
Credits		if: Spouse was born before January 2, 1948,	Blind.	checked ► 39a			
Standard	b	If your operage 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) .	80 5	40	1
People who	41	Subtract in 10 from line 38			7	41	
check any box on line	42	Exemptions. Multiply \$3,800 by the number on line 6d	35 35		141 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				43	
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nstructions.	46	Add lines 44 and 45	0.00		-	46	T
All others:	47	Foreign tax credit. Attach Form 1116 if required	47				Т
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Married filing	50	Retirement savings contributions credit. Attach Form 8880	50				
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\$8,700	55	Subtract line 54 from line 46. If line 54 is more than line 46, ente	er -0-			55	t



Form 1040 – page two

Tax and	38	Amount from line 37 (adjusted gross income)	W 16.		38		
Credits	39a	1 =	Blind.	Total boxes checked ► 39a			
Standard	b	If your spouse itemizes on a separate return or you were a dual-stat	tus alier	n, check here ► 39b			
Deduction for -	40	Itemized deductions (from Schedule A) or your standard dedu	ction (s	ee left margin)	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	141	40 40 100 14 DE 04 14	42		
39a or 39b or	43	Taxable income. Subtract line 42 from line 41, If line 42 is more	than li	ne 41, enter -0	43		
claimed as a	o can be						
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Married filing	50	Retirement savings contributions credit. Attach Form 8880	50				
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vidow(er),	52	Residential energy credits. Attach Form 5695	52				
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\$8,700	55	Subtract line 54 from line 46. If line 54 is more than line 46, enter	-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 \$18,150	-	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

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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



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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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



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

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^{*} 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



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

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