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Fundamentals of Planned Giving Part 1: Tax Fundamentals



Date: July 16, 2014
 Time: 1:00 – 2:30 Eastern Time
 Presenter: Craig C. Wruck
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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

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	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

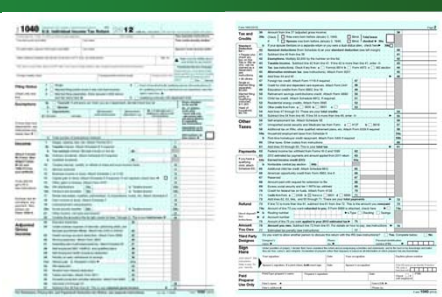
*Reduced or eliminated for high income taxpayers

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Form 1040



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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%

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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)

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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



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 not 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


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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: \$5.34 million tax free
 - Cumulative total of lifetime gifts plus gifts at death
 - Unlimited exclusion on transfers to spouse
 - Portability of unused deceased spousal exclusion

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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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