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Hello, my name is Don Vivrette. I was raised in a family that was often involved with giving back to others. Whether that was through their church or other charities, our parents believed in giving back. This was the foundation of our family’s charitable giving.

Through various investments, we have been able to give financially to various charities. Through that process I have learned a reasonable amount about the options that exist in giving.

I am not a writer, but I thought a conversation about Charitable Giving might be a useful booklet. So, here is my initial pass at that conversation. I am not tied to any specific charity. I believe people should give to causes important to them, not what is important to others.

I hope this is interesting to you and that it starts a conversation for you or with others. Don.

Charitable Giving

What is Charitable Giving?

Charitable giving is the act of sharing with others. This may be supporting your alma mater to promote higher education, giving to your church to help carry on their mission, helping the homeless or a foodbank, supporting the environment, the arts, nature, or other areas of your choice. Giving of your time is invaluable to any charity, but here we will focus on financial giving.

Charitable gifts during your lifetime may be deductible from your income tax as we will explain shortly. If you give after you die, this is called a bequest or testamentary gifts. These may be deductible from your estate tax if needed.

Why give to charities?

We give to charity to help others and to give back. However, there is nothing wrong with giving back, and also receiving a financial benefit for doing so. The fact that you receive a tax deduction, or a lifetime of income, does not diminish the rewards for giving.

You can give to charity on your behalf, but also for your beneficiaries. Why not give to charity and give your beneficiaries an income for a fixed timeframe or for their lives.

Beyond charitable giving for the sake of giving, charitable giving can help you with an assortment of issues you may be trying to solve. The items on the following page gives a list of these types of issues that you may be trying to solve today or in the future.

For example, you may want to reduce your current income tax. Charitable giving generates a tax deduction that can certainly reduce your taxes today and in the future. You may want to sell a piece of rental property. In the past you may have used a 1031 exchange to swap property. However, these only work when you are getting another like property. By using a charity in that process the capital gain on the property can be removed or deferred.

Or you may be concerned about what will happen to your retirement account. This is often a large part of your estate. If you pass these accounts to your younger beneficiaries, they are required to take all of the money within 10 years. However, they can also take the money on day one and spend it all immediately.

You can set up a testamentary trust to receive the retirement funds and pay the beneficiaries over a period of up to 20 years. And they can not access the funds quicker, so you have controlled the distribution.

Issues to solve:

Income tax

Tax avoidance

Tax deferral

Tax deduction

Charitable deduction

Capital gains tax

Sale of residence

Sale of investment property

Estate tax

Today at a high exclusion

Gifting today

Portability

After 2025, a lower exclusion

Cashflow

Today

Tomorrow

For you or your beneficiaries or both

Time value of money

Is a dollar today worth more than a dollar tomorrow

Investments

Growth in value, but no dividends

Volatility in the market

Retirement account value

Comes out as ordinary income (except a Roth)

Beneficiaries

What if they:

Have special needs

Got a large cash inheritance today

You may own stock in a company that has appreciated in value but does not pay a dividend. To get cash you would need to sell some of the stock and pay capital gains. By using a charitable gift, you can avoid or defer the capital gain and receive an income for your lifetime.

Our later example is a person who has a highly appreciated company stock. This stock can be placed in a CRUT (discussed later) and defer the capital gains over your lifetime. You can receive a lifetime income and also sell some of the original stock to diversify the portfolio. This can solve a capital gains issue as well as avoid a concentration in investments if desired.

Why give today, rather than after you die?

As this booklet is being written in 2023, the estate exemption is quite high at almost \$13 million dollars per person. For a married couple, the exemption is over \$25 million. Most people will not have an estate that large. A charitable deduction for your estate does not save you any money if no estate tax would be due. After 2025, the exemption may drop to as low as \$5 million per person. This will cause many more estates to exceed this limit.

Charitable deductions can be thought of as one of three types:

- If you give to a charity during your lifetime and get nothing in return, then

100% of that gift can be deducted from your income tax today.

- If you give to a charity during your lifetime and get a return, like lifetime income, then only the net value of that gift can be deducted from your income tax today . The amount you gave minus the present value of what you will receive is deductible
- If you give to charity after you die, the same rules apply, but the deduction is against the value of your estate, not your income. With the current exemption of almost \$13 million per person, there will probably be no taxes paid anyway, so there is really no use of that deduction.

If you itemize your expenses on your income tax return, then you can deduct up to 60% of your Adjusted Gross Income (AGI) in any given year if you give cash to a charity. You can deduct up to 30% of your AGI if use gave appreciated assets.

If you can't use all your deduction in one year, you can carry it forward for 5 more years. For example, if you gave \$100,000 in cash to charity in one year and your AGI was also \$100,000, you could deduct 60% of your AGI or \$60,000 that year. That reduces your taxes by 60%. The remaining \$40,000 can be applied over the next 5 year's taxes. So, all the deduction can be

used, but possibly not all in one year.

What types of charitable giving are available?

There are many different avenues of charitable giving. And even within a given avenue there are numerous options available. Below are several types of charitable giving, starting with the simpler and then moving to the more complex.

Direct gifts - This form of giving is by far the easiest since you give either cash or some other form of asset. If you receive nothing in return, other than a thank you, you can take an income tax deduction during your lifetime.

Qualified Charitable Distribution (QCD) – If you are 73 years old or older, you are required to take a yearly Minimum Required Distribution (RMD) from your retirement account. This distribution will be taxed as ordinary income and will raise your income tax, it may increase the cost of your Medicare premium, and possibly raise the percent you are taxed on your Social Security benefits. You can avoid this if you have an IRA. From that IRA, you can request a QCD payment paid directly to a valid charitable organization (having a 501©3 designation). You would have the manager of your account write the check to a charity and we suggest you have that check mailed to you

so you can make a copy of that check. You then mail the check to the charity with a note saying it is from you.

The advantage of doing this is that the amount you take as a QCD does not come into your income, so you do not pay any tax on that amount. You can take any amount of your RMD as a QCD, up to \$100,000 maximum. You can request one or several checks payable to different charities. At year end, when you get your 1099R from your broker, you can deduct the amount taken as a QCD, so that reduces your taxable income by the total of the QCD. The copies of the checks are your proof of the QCD.

This is by far the best “tax deduction” you can get for a charitable gift since it is completely deductible and you don’t need to take an Itemized Deduction on your taxes since this is a reduction in your income, not a deduction.

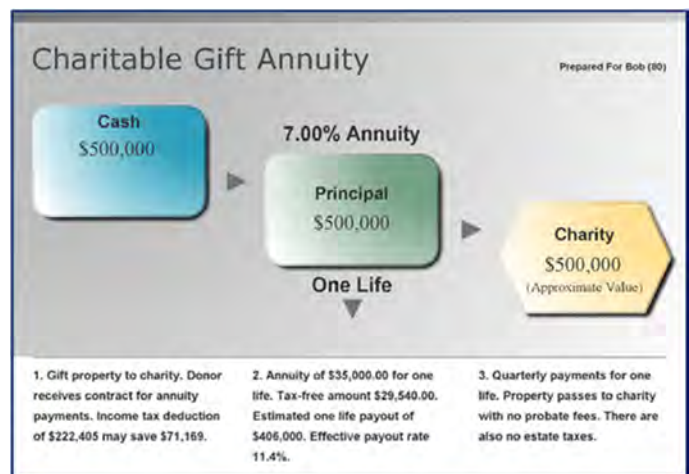
For example, if your RMD for this year was \$12,000 and you took QCDs for a total of \$8,000, then you would only pay tax on \$4,000. At a 20% tax rate, you just saved \$1,600 ($\$8,000 \times 20\%$) in taxes. The \$8,000 comes out tax free because you are giving it directly to charity. If you took out the full RMD, at a tax rate of 20%, the tax you would pay is \$2,400, but after the QCD, the tax would only be \$800.

Charitable Gift Annuity (CGA) – This is a charitable gift to a larger charity. With a CGA, you give a set amount of money or appreciated assets, and based on your age, you will get an income for life. If you are married, it can be for the life of the second to die if desired.

The rates are generally set by the American Council on Gift Annuities. At the time the CGA is set up, your age sets the percent paid. That rate times the amount of the gift fixes your income. When you die, the charity keeps the remaining value of the gift. You can not outlive the gift. The charity commits to paying you until you die.

For example, if you were 80 years old, the rate is currently 7%. If you gave \$500,000, then you would get \$35,000 each year until you die. Since much of this payout is considered return on investment (\$29,540) comes out tax free, the after-tax return rate is 11.4%. This is fixed, does not vary with the stock market and when you die the charity keeps the rest of the money.

Below is a visual of this example.



The other benefit of doing a CGA while you are alive is you get an income tax deduction. Using the example above, your tax deduction would be \$222,405. This would produce a significant tax saving. You can also use a onetime QCD, discussed in the previous section, to fund a CGA with a value currently of up to \$50,000. This amount would be applied against your RMD requirement.

An issue to consider. A CGA is an irrevocable gift. After you sign the simple forms, the gift is irrevocable. This is due in part to the fact that the charity is paying you now and not getting to use the money until a later date. You should have a financial plan in place to make sure you will not need that original gift to pay your expenses later. Since many of these charitable gifts can be confusing, a software company like Crescendo can generate examples/visuals to show the actual results in a graphic form. The visual above is an example of a Crescendo visual run for our hypothetical CGA. We suggest that you request such an example from a charity you want to support or have your advisor generate it for you.

Donor Advised Fund (DAF) - A DAF is like a Private Foundation, but with far less complexity. You can set up a DAF with a brokerage firm or a Community Foundation. There is a low initial funding, which is tax deductible.

With a DAF, you contribute to the fund as with any other charity, however, the money can be distributed overtime and to various charities. Currently a QCD can not be paid to a DAF. With a Private Foundation there are various reporting requirements as well as a need to distribute at least 5% of the fund each year. With a DAF you can accumulate funds in the DAF and pay out as you wish and you have no reporting responsibility.

Another advantage of a DAF is the ability to “bunch” your charitable contributions. If today, you take a Standard Deduction on your income tax, then you don’t get a tax advantage for your charitable contributions since that requires itemizing your deductions (except for a QCD). But if you bunch several years of contributions into one year and put it into a DAF, you can get up to a level to justify itemizing your expenses. With the money in the DAF, then you could pay it out to charities over several years.

When you want to distribute the funds, you let the holder of the DAF know what charities you want to pay and for how much. They verify that it is a valid charity, write the check and mail it to the charity. Since you have already taken a tax deduction, you do not need to document the payment. You must pay a not-for-profit organization, and you can not pay yourself, or

take the money back. You got the tax deduction when you put the money in, so they are no longer your personal funds.

Charitable Remainder Trusts – This type of giving moves into a more complex gift. The concept is the same, you give money or appreciated assets to charity, and you get a return. But the variations can be complicated and can generate interesting results. As noted before, we highly recommend having examples run for you before you enter into any of these types of charitable giving. We will show hypothetical examples below.

Charitable Remainder Unitrust (CRUT) – In a CRUT, you gift cash or other assets to the trust and receive an income for your life or lives, or for a term of years, up to 20 years. You are also allowed to have it for your lives PLUS a term of years up to 20 years for your beneficiaries.

For a CRUT, the payout is a fixed percentage of the balance of the invested funds based on December 31 year end levels. This amount is generally paid in quarterly instalments over the next year. The amount received each year varies based on the balance of the invested funds on the prior year-end.

The other type is to do a Charitable Remainder Annuity Trust (CRAT). This type of

trust pays a specific dollar amount each year for either life, the term or until the trust runs out of money.

With either type of trust, when you die or the term expires, the remainder of the funds go to the charities you specify. Generally, you can change the charities to receive the remainder during your lifetime. In some cases, a charity may assist in setting up the trust and require that they remain a listed charity.

A CRUT or CRAT have their own tax ID and need to have tax returns filed annually for as long as the trust continues. There is also what is called four tier accounting generally done by a CPA to determine the tax conditions on the monies you receive. Part of the payout may be ordinary income, part capital gains, part tax free, and also return of capital which is not taxed. You would use this information to do your taxes.

CRUTs are important legal entities. You will need to have the documents generated by an Estate Planning or Charitable Giving attorney. The trusts are irrevocable after signing, so assure they are what you want before signing. Work to not be pressured into signing something you are not comfortable with or do not completely understand what is being done. As we keep saying, run the numbers before you finalize

any of these trusts.

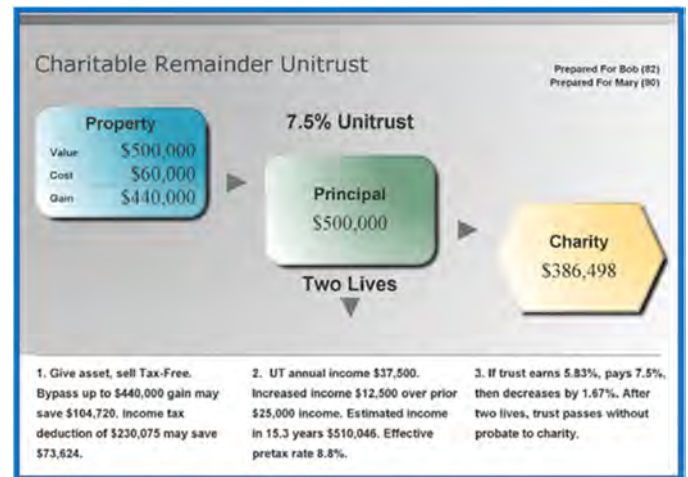
Trusts can be setup during your lifetime or after your death. After your death they are referred to testamentary trusts which would benefit your beneficiaries. During your life, these trust often generate a significant income tax deduction for you. After your death they would generate an estate tax deduction if your estate is large enough to use a charitable deduction.

There are many variations of CRUTs to be used depending on your goals. Below are examples of how these can be used.

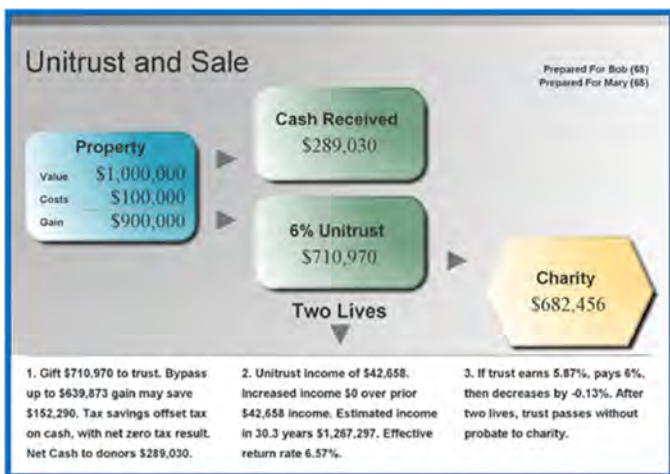
In the first example an asset, valued at \$500,000, with a high capital gain is placed in a CRUT. The asset is sold, and the funds are used to pay you over time. One advantage is a deferral of Capital Gains taxes. The trust does not pay taxes, but the four tier accounting mentioned before allocates the gain over your lifetime.

In this example you would receive a \$230,075 income tax deduction which will give you a significant tax savings. We chose to use a 7.5% payout. This amount can vary, and the software will validate that the amount meets IRS rules. The percentage must be at least 5% and can be higher based on your age and other variables.

The couple in this example are 80 and 82. Their estimated life expectancy, based on the IRS tables is a bit over 15 years. Over their lifetime it is expected they will receive \$510,046 based on the assumptions. After their deaths, the charities they listed will receive the balance of over \$386,000. Below is a visual of this trust's anticipated results.



In the next example, it was decided not to put all the asset's value into the trust. How much money can be taken out and produce a net zero tax? There will be Capital Gains taxes due on the part taken out, but there will be an income tax deduction for the charitable contribution. The goal is that these two taxes net to zero. The example on the next page shows that almost 30% of the value can be taken out with net zero taxes paid over time.

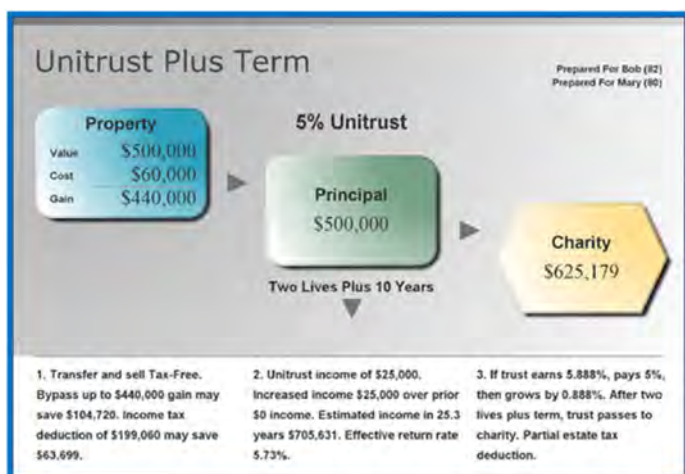


Why does the timing of a gift matter?

When and how you give a gift to charity is very important. As an example, if you want to give an asset to charity, but you sell it first, then give the proceeds to the charity, you will need to first pay any Capital Gains taxes.

If, however, you gave the asset directly to the charity and they sold it, they do not pay Capital Gains, so there will be more money going to the charity and you will get a greater income tax deduction and probably earn more income over time. The only difference was the timing. Below is an example of this.

In the final example we show a life return, plus 10 years paid to the beneficiaries. In this example the percentage taken was 5%, which will generally cause the trust to increase in value over time, since the market typically gains over a 5% return. Below is an example.



What if I ... ?		
	Sale => Charity	Charity => Sale
Asset	\$1,000,000	
Exemption / Basis	\$100,000	
Capital Gains	\$900,000	
Capital Gains Tax Rate	40%	
Capital Gains Tax	-\$360,000	
Net after tax	\$640,000	
To Charity to fund a CGA	\$640,000	\$1,000,000
Charitable Tax Deduction	\$224,000	\$350,000
Income Tax Rate	35%	35%
Tax Savings	\$78,400	\$122,500
Added tax savings		\$44,100
CGA @ 80	7.0%	7.0%
Annual payout	\$44,800	\$70,000
Added funds each year		\$25,200
Added funds to the charity		\$360,000

As noted before, there are many variations of CRUTs. It is always important to determine your individual goals and then to run the numbers to see what works for you.

In this example, if you sold the asset and paid the capital gains, then the amount you would give reduces from \$1 million to \$640,000. If you gave it to charity first, then the gift remains at \$1 million, and correspondingly, all the resulting benefits stay at the higher level.

Conclusion, so now what?

This booklet covers many charitable giving options. That said, there are many more available that were beyond the scope of this booklet.

To begin or continue the process of developing your charitable giving plan, we suggest you contact an estate planning attorney, financial advisor, or a specific charity you want to work with. It works best when they are familiar with charitable giving matters since it is a specialized field.

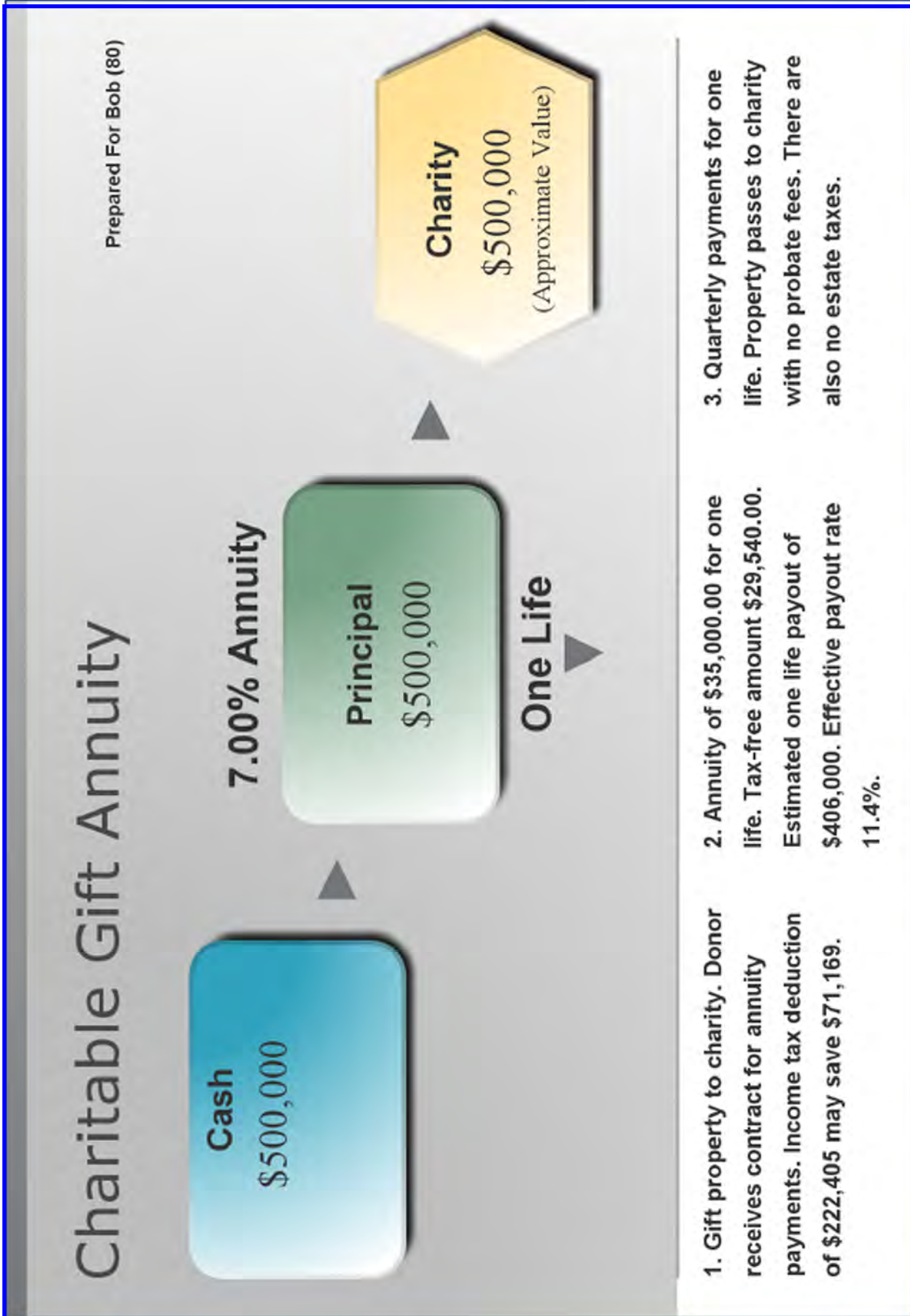
It is also very important to assure that you are giving for reasons you believe in and that you have considered the financial impact of your gifts.

Next, reread this booklet to see the kinds of issues you can start thinking about before you meet with the attorney. It generally is more comforting to have a basic understanding of the process before you begin.

This booklet is a part of a 3 booklet series. The other booklets are on Estate Planning and Financial Planning. All 3 work together and try to explain various areas we think relate to one another. Feel free to download all 3 booklets at IYME.org.

Disclaimer: This document is intended as a learning exercise, not to provide legal advice. There are different rules in different jurisdictions and items we may have discussed may not be practical in your situation. Additionally, this is a general discussion and in no way relates to any specific individual or specific situations.

Exhibit A



Charitable Remainder Unitrust

Prepared For Bob (82)
Prepared For Mary (80)



1. Give asset, sell Tax-Free.
Bypass up to \$440,000 gain may save \$104,720. Income tax deduction of \$230,075 may save \$73,624.
2. UT annual income \$37,500.
Increased income \$12,500 over prior \$25,000 income. Estimated income in 15.3 years \$510,046. Effective pretax rate 8.8%.
3. If trust earns 5.83%, pays 7.5%, then decreases by 1.67%. After two lives, trust passes without probate to charity.

Unitrust and Sale

Prepared For Bob (65)
Prepared For Mary (65)

Property	
Value	\$1,000,000
Costs	\$100,000
Gain	\$900,000

Cash Received
\$289,030

6% Unitrust
\$710,970

Two Lives

Charity
\$682,456

1. Gift \$710,970 to trust. Bypass up to \$639,873 gain may save \$152,290. Tax savings offset tax on cash, with net zero tax result. Net Cash to donors \$289,030.
2. Unitrust Income of \$42,658. Increased income \$0 over prior \$42,658 income. Estimated income in 30.3 years \$1,267,297. Effective return rate 6.57%.
3. If trust earns 5.87%, pays 6%, then decreases by -0.13%. After two lives, trust passes without probate to charity.

Unitrust Plus Term

Prepared For Bob (82)
Prepared For Mary (80)

Property	
Value	\$500,000
Cost	\$60,000
Gain	\$440,000

5% Unitrust

Principal	
Value	\$500,000

Two Lives Plus 10 Years

Charity	
Value	\$625,179

1. Transfer and sell Tax-Free.
Bypass up to \$440,000 gain may save \$104,720. Income tax deduction of \$199,060 may save \$63,699.

2. Unitrust income of \$25,000. Increased income \$25,000 over prior \$0 income. Estimated income in 25.3 years \$705,631. Effective return rate 5.73%.

3. If trust earns 5.888%, pays 5%, then grows by 0.888%. After two lives plus term, trust passes to charity. Partial estate tax deduction.

What if I ... ?		
	Sale => Charity	Charity => Sale
Asset	\$1,000,000	
Exemption / Basis	\$100,000	
Capital Gains	\$900,000	
Capital Gains Tax Rate	40%	
Capital Gains Tax	-\$360,000	
Net after tax	\$640,000	
To Charity to fund a CGA	\$640,000	\$1,000,000
Charitable Tax Deduction	\$224,000	\$350,000
Income Tax Rate	35%	35%
Tax Savings	\$78,400	\$122,500
Added tax savings		\$44,100
CGA @ 80	7.0%	7.0%
Annual payout	\$44,800	\$70,000
Added funds each year		\$25,200
Added funds to the charity		\$360,000
Working hypothetical example		