

FINANCIAL AND ESTATE LITERACY

CHARITABLE GIVING - FALL 2023
FROM SIMPLE TO MORE COMPLEX

HOW TO GIVE AND STILL GET BACK

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WHEN IS CHARITABLE GIVING A DEDUCTION AND WHAT TYPE?

- If you give to a charity today and get nothing in return (other than a thank you) then you get an immediate **INCOME** tax deduction for the total amount.
 - Deduction against Adjusted Gross Income (AGI)
 - Typically, up to 60% for cash donations or 30% for appreciated assets
 - Deduction for current year plus 5 additional years
 - Normally part of an Itemized Tax Deduction – think QCD (more later)
- If you give to charity today, but get money back over time, then you get an immediate **INCOME** tax deduction for the NET amount given, not the full amount because you get a benefit back.
- If you give to a charity after you die, your estate gets an **ESTATE** tax deduction, depending on giving the full amount or your heirs getting a return.

ISSUES TO SOLVE

- Desire to give back
- Income tax
 - Tax avoidance
 - Tax deferral
 - Tax deduction
 - Charitable deduction for current + 5 years
- Capital gains tax
 - Sale of residence
 - Sale of investment property
 - Gain from prior a 1031 exchange
- Estate tax
 - Today at a high exclusion
 - Gifting today
 - Portability
 - After 2025 with a possible 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
 - And capital gains if sold to get cash out
 - Volatility in the market
 - Retirement account value
 - Comes out as ordinary income (except a Roth)
- Beneficiaries
 - What if they:
 - Got a large cash inheritance today
 - Special needs

RETIREMENT ACCOUNTS – IRD...

- Income in Respect of Decedent (IRD) = Individual Retirement Account (IRA), 401(k), 403(b) ... No tax paid going in, so tax paid coming out
- Required Minimum Distribution (RMD)
 - Required each year when you are 73 and older (Moving to 75 by 2033)
 - Based on the value of your accounts at the end of last year and your age
 - Factor based on your age
 - Adjusts each year for age and account balance

- Produces ordinary taxable income

- Qualified Charitable Distribution (QCD)

- For an IRA account, not 401(k) or 403(b)
- After age 70^{1/2} paid directly to a charity.
- 100% deductible, since it does not come into your income.
 - Can be a partial or total against your RMD. QCD limited up to \$100,000.
- You direct your account manager to pay all or part of your RMD directly to the charities you designate as a QCD.

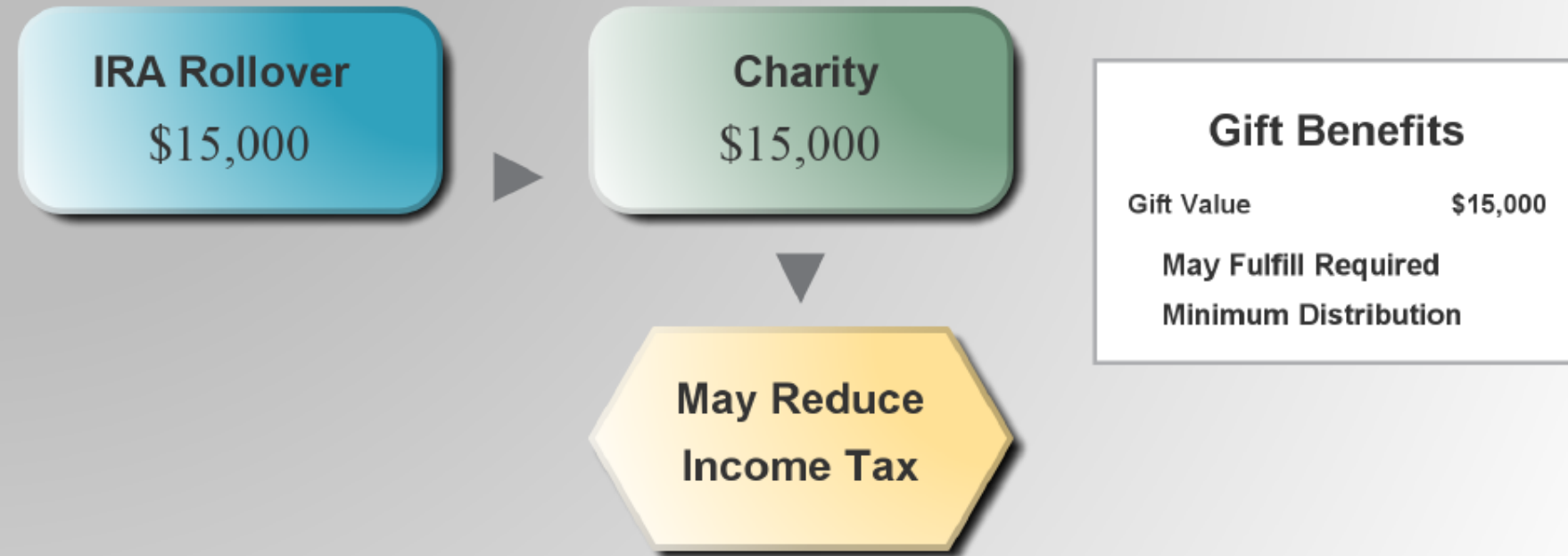
RMD Examples	
Age	Factor
70	29.1
75	24.6
80	20.2
85	16.0
90	12.1

Example	
Balance	\$500,000
Age	80
Factor	20.2
RMD	\$24,752

Rates recently changed and the amount needed for RMD went down

IRA Rollover Gift

Prepared For Mary



RMD from page before was a total of \$24,752 but in this example, part is given directly to charity. No tax due on the part given to charity, only on the \$9,752 taken directly.

At 20% tax, the savings was \$3,000 + possibly reduce your Medicare bill.

1. IRA rollover charitable gift. Transfer from IRA custodian to charitable organization. May fulfill your IRA required minimum distribution (RMD).

2. Benefits for both the donor and the charity. IRA distribution to charity is not taxable income for donor.

3. Donor has satisfaction of knowing charitable purpose is served by gift. Plus, donor does not pay tax on required minimum distribution.

QCD Example

Let's say your RMD is \$25,000

If \$20,000 went directly to charity

Tax only paid on \$ 5,000 or \$ 1,000 in taxes

Tax NOT paid on money going to charity

At a tax rate of only 20% you save \$ 4,000

And your Medicare bill might not go up!

Percent taxed on Social Security might not go up!

Net you end up with \$ 4,000

If you wanted to give away \$20,000 to charity,

but you took all of your RMD, you would have to use \$25,000 to give \$20,000 because you would pay \$5,000 in taxes on that money.

Net you end up with \$ 0.00. It all went to charity & taxes

QCD Example

Church example

If you give \$50 per week to your church,
That's \$2,600 per year.

You would have to take out \$3,250 to pay \$2,600.

Because at say a 20% tax rate, you'll pay \$650 in tax
\$3,250 minus \$650 equals \$2,600

If you used your QCD and paid \$2,600 directly to the
church, you would save that \$650 in taxes

CHARITABLE GIFT ANNUITY (CGA)

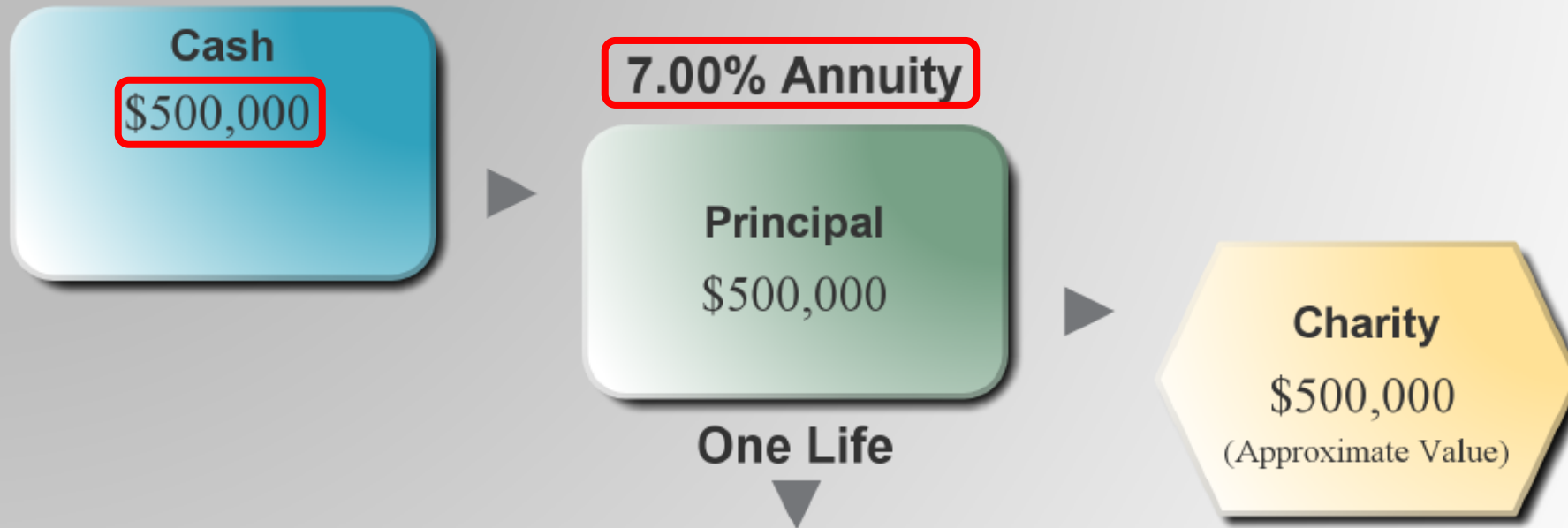
- Most non-profits that offer CGAs follow recommended rates from American Council on Gift Annuities (ACGA)
- Rates based on age - single or dual life
 - Rates are locked in when annuity established, do not adjusted over time
 - Pay out for your life (or both lives), not a set time period
- Irrevocable agreement, but a simple form
- Charity must set aside a residual fund to protect annuity, plus other assets
 - Recommend giving to major charities
 - When you die, the remainder goes to the charity, not your family
- Can have a deferred start date
 - Can set up as testamentary annuity to pay your beneficiaries
- Consider using a highly appreciated, non-income producing stock to open an CGA. Or even better, use your QCD to fund.

Age*	Rate
65	4.8%
70	5.3%
75	6.0%
80	7.0%
85	8.1%
90	9.1%

Based on single life
Updated as of 7/1/2022

Charitable Gift Annuity

Prepared For Bob (80)



1. Gift property to charity. Donor receives contract for annuity payments. Income tax deduction of **\$222,405** may save \$71,169.

2. Annuity of **\$35,000.00** for one life. Tax-free amount **\$29,540.00**. Estimated one life payout of **\$406,000** Effective payout rate **11.4%**.

3. Quarterly payments for one life. Property passes to charity with no probate fees. There are also no estate taxes.

DONOR ADVISED FUNDS

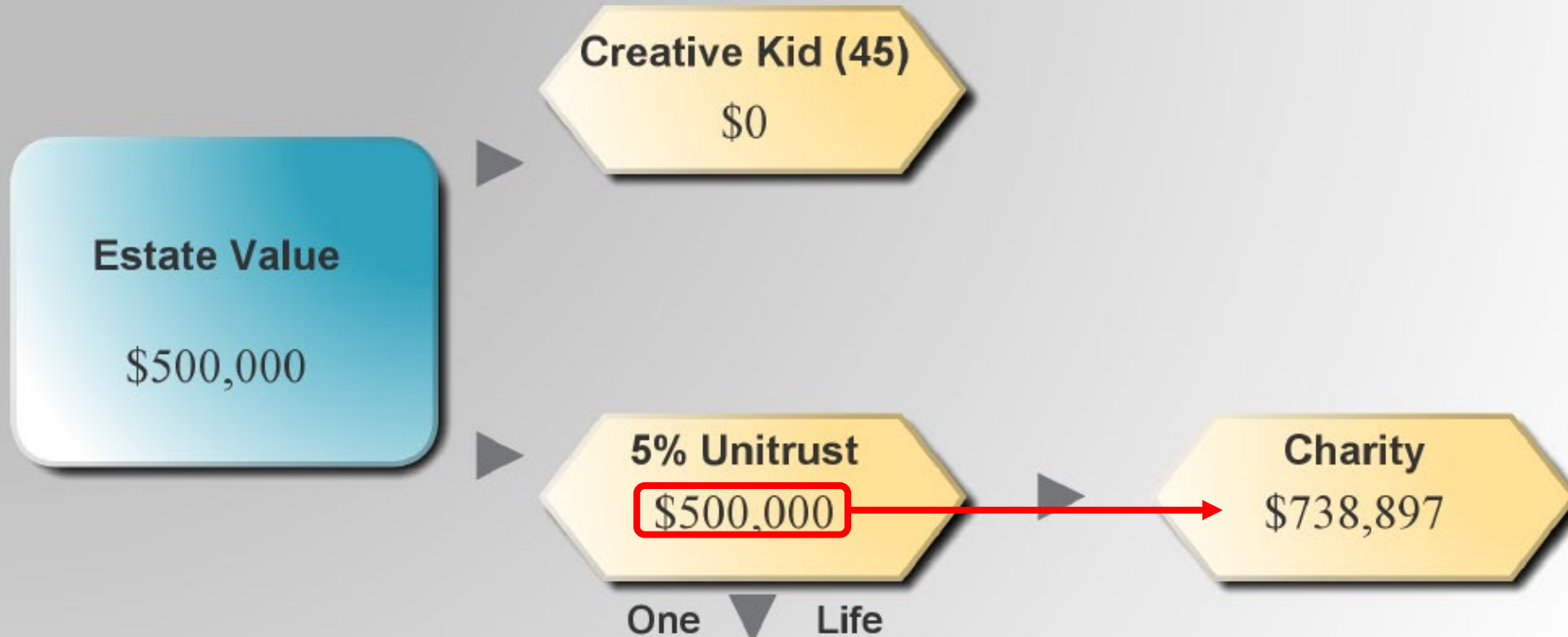
- Like having your own Private Foundation
 - Without the overhead and restrictions
- Very simple to set-up through a Community Foundation or brokerage firm
- Low (tax deductible) dollar amount to open the account & low fees
- Good tool to bundle charitable giving
- You advise on where and when to pay out to charities
 - Holder of the funds will confirm valid charity
- Currently a QCD can not be used to fund a Donor Advised Fund.
 - Congress discussing a change to this
- You or whoever you designate advises during your life and your family (or others) can advise after your death

IRA ACCOUNTS TO HEIRS

- Major issues to consider
 - Secure Act restricts heirs (except spouses...) to payout for max of only 10 years. All and/or part each year, but all out within 10 years.
 - An RMD amount may be required each year
 - What will your kids do with the account?
 - Take it all immediately and spend it or keep it invested?
 - What will happen when the money is taken out?
 - Pre-tax accounts are fully taxable to individuals as ordinary income
 - Pre-tax accounts are not taxed to charities
- If this is a concern, consider a testamentary trust
 - Fund it with the IRA
 - Payments are limited to your specified amount / percent
 - Can run for the heir's lifetime or a term, but not limited to 10 years

TESTAMENTARY UNITRUST

Prepared For Martha



1. Part of estate to unitrust with balance, and costs, to Creative Kid (45). Charitable tax deduction of \$107,240 may save estate taxes of \$0.

2. Trust income of 5% paid for life of recipient. First year income \$25,000. Estimated total income of **\$1,345,900**. Estate costs are \$0 and taxes are \$0.

3. If unitrust earns 5.89%, pays 5%, then grows 0.89%. After income payments for one life, unitrust to charity.

Who Gets What Matters

Estate \$2.5 million, IRA \$1.5 million, House \$1 million

IRA (Kids); House (Charity)		IRA (Charity); House* (Kids)	
\$1,500,000	IRA to Kids	\$1,500,000	IRA to Charity
\$555,000	Fed max tax		
\$199,500	CA max tax	\$1,000,000	House to Kids
\$745,500	to Kids	\$0	no tax*
		\$1,000,000	to Kids
\$1,000,000	House to Charity		*Step-up values at death

Charitable Gift Annuity

Simple & Cheap

- CGAs from a charity are usually identical except for the dollar amount



Charitable Remainder Trust

Flexible & Expensive

- CRTs are individually created according to the specific desires of each client

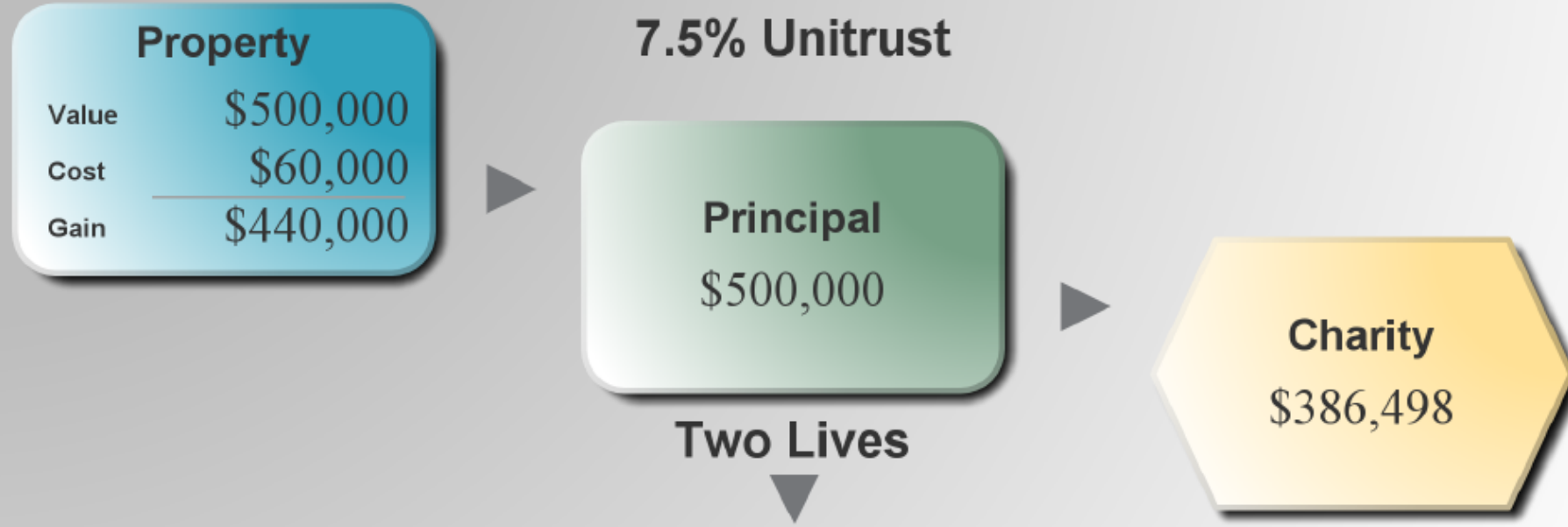


CHARITABLE REMAINDER / LEAD TRUSTS

- Works best when giving assets with significant capital gains
 - To defer or offset capital gains tax
 - Tax savings could offset capital gains tax
 - Put in all or part of an asset
- Who gets the money now
 - Remainder Trust – You get cash now, charity gets remainder
 - Lead Trust – Charity gets cash now, beneficiaries get remainder
 - Mainly used for larger estates with highly appreciating item
- Cash paid either a fixed % of value (CRUT) or fixed dollar amount (CRAT). A CRAT can run out of money.
- You specify the charity or charities during your lifetime
 - You can change these as you wish
- Can be for a fixed time period or for your life(s) plus more years
- Attorney needs to draft agreement and it is irrevocable

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.

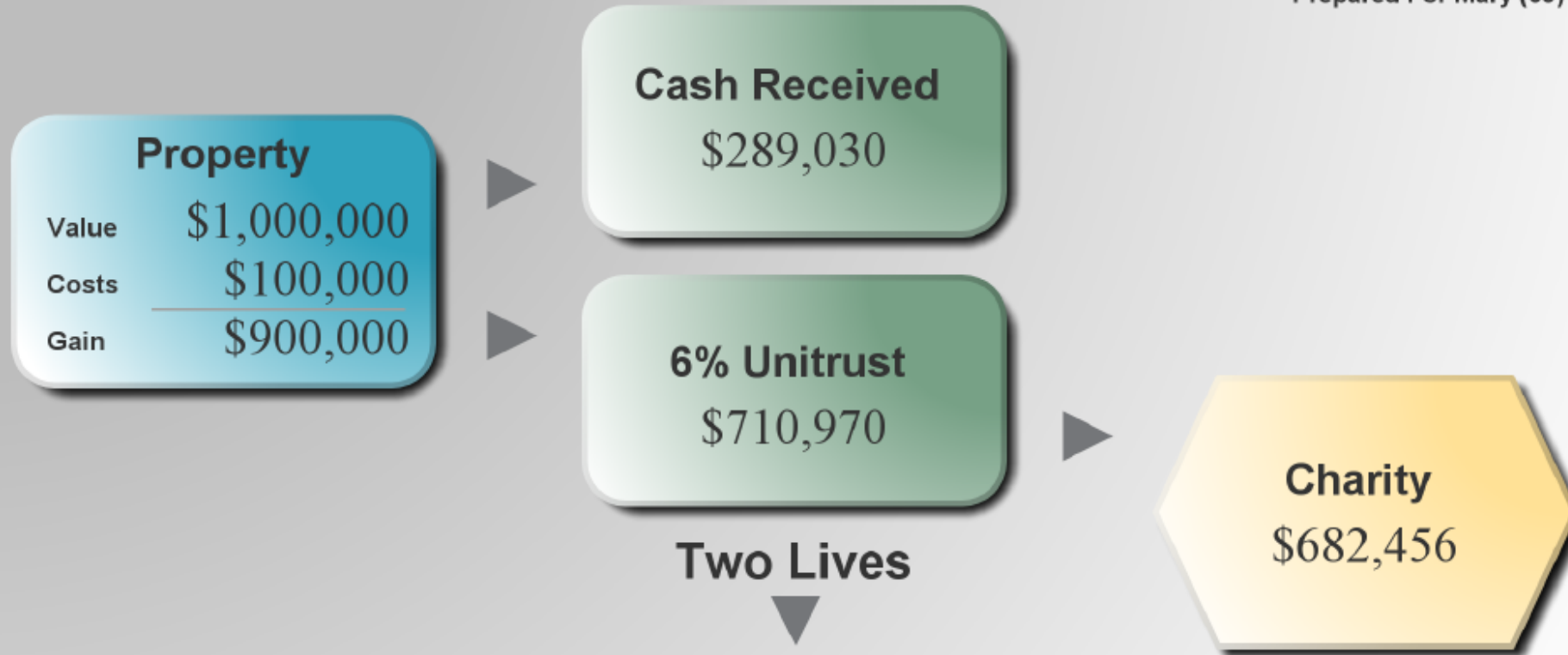
2. UT annual income \$37,500.
Increased income \$12,500 over prior \$25,000 income. Estimated income in 15.3 years **\$510,046**. Effective pretax rate **8.8%**.

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)



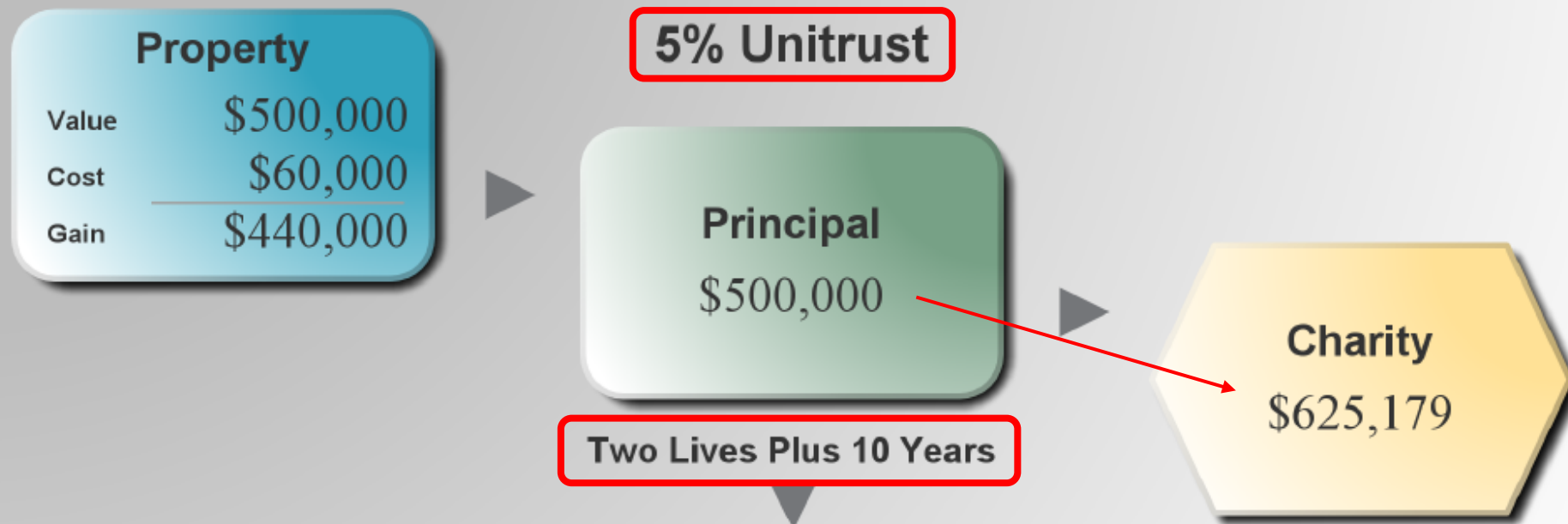
1. Gift \$710,970 to trust. Bypass up to \$639,873 gain may save \$152,290. Tax savings offset tax on cash, with net zero tax result. Net Cash to donors \$289,030.

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)



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.

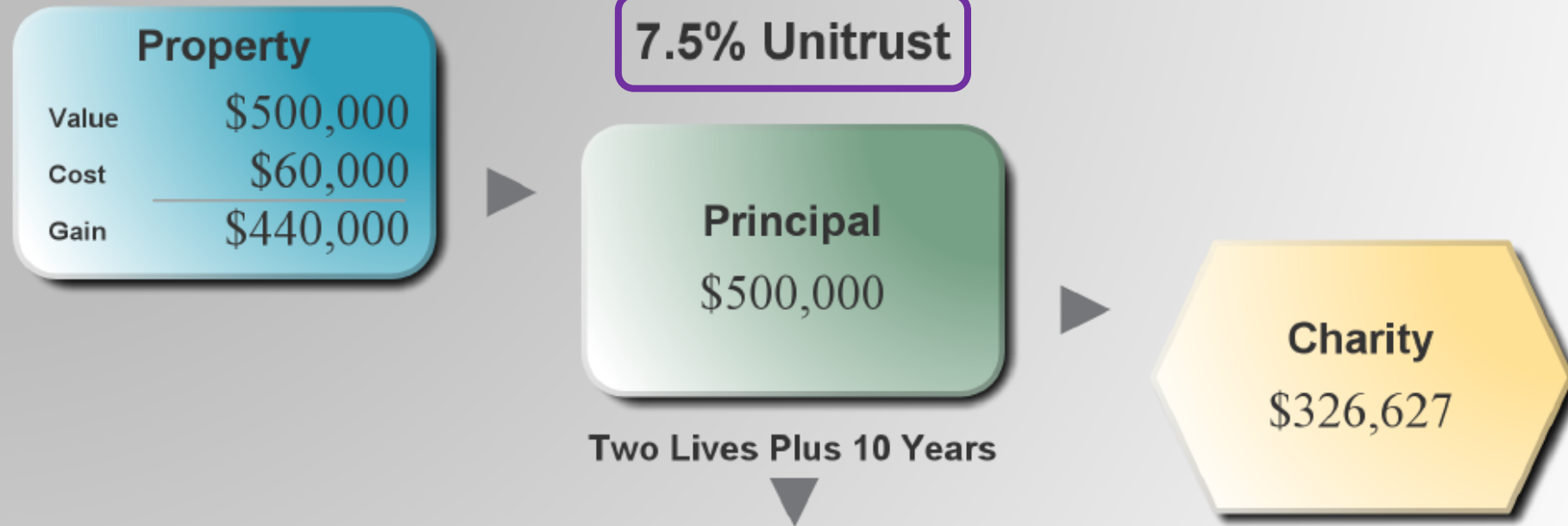
2. **Unitrust income of \$25,000.**
Increased income \$25,000 over prior \$0 income. Estimated income in 25.3 years **\$705,631**. Effective return rate 5.73%.

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.

Income for both lives plus 10 additional years for a beneficiary

Unitrust Plus Term

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



1. Transfer and sell Tax-Free.

Bypass up to \$440,000 gain may save \$104,720. Income tax deduction of **\$126,760** may save \$40,563.

2. Unitrust income of \$37,500.

Increased income \$37,500 over prior \$0 income. Estimated income in 25.3 years **\$779,090**. Effective return rate 8.16%.

3. If trust earns 5.831%, pays

7.5%, then decreases by 1.669%. After two lives plus term, trust passes to charity. Partial estate tax deduction.

Was \$705,631 at 5%

TYPES OF REMAINDER TRUSTS

- › STANDARD – Effective immediately
 - Sell assets contributed and take income
- › NICRUT – Net Income only
 - Sell but limit income, plan for retirement
- › NIMCRUT – Net Income with Makeup
 - Same as NICRUT but makeup lost income later
- › FLIP – Changes at a significant event or date
 - Don't take income until contributed assets are sold
- › But provides an income tax deduction now



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

ISSUES TO SOLVE

Run the numbers to see what is best for you

- Desire to give back
- Income tax
 - Tax avoidance
 - Tax deferral
 - Charitable tax deduction for current and 5 years
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- Beneficiaries
 - What if they:
 - Got a large cash inheritance today
 - Special needs

Lots of the available options

Find a Program

GIFT TYPE

- Major Gifts
- Blended Gifts
- Planned Gifts

GIFT MODEL

- Bequest
- Gift Annuity
- Unitrust
- Annuity Trust
- Lead Trust
- Other

Most Popular Programs ▶

Recently Used Programs ▶



Major Gifts

- [i Cash Gift/DAF \(33\)](#)
- [i Gift of Appreciated Asset/DAF \(34\)](#)
- [i IRA Rollover Gift \(35\)](#)
- [i Gift and Sale \(36\)](#)
- [i Bargain Sale \(38\)](#)



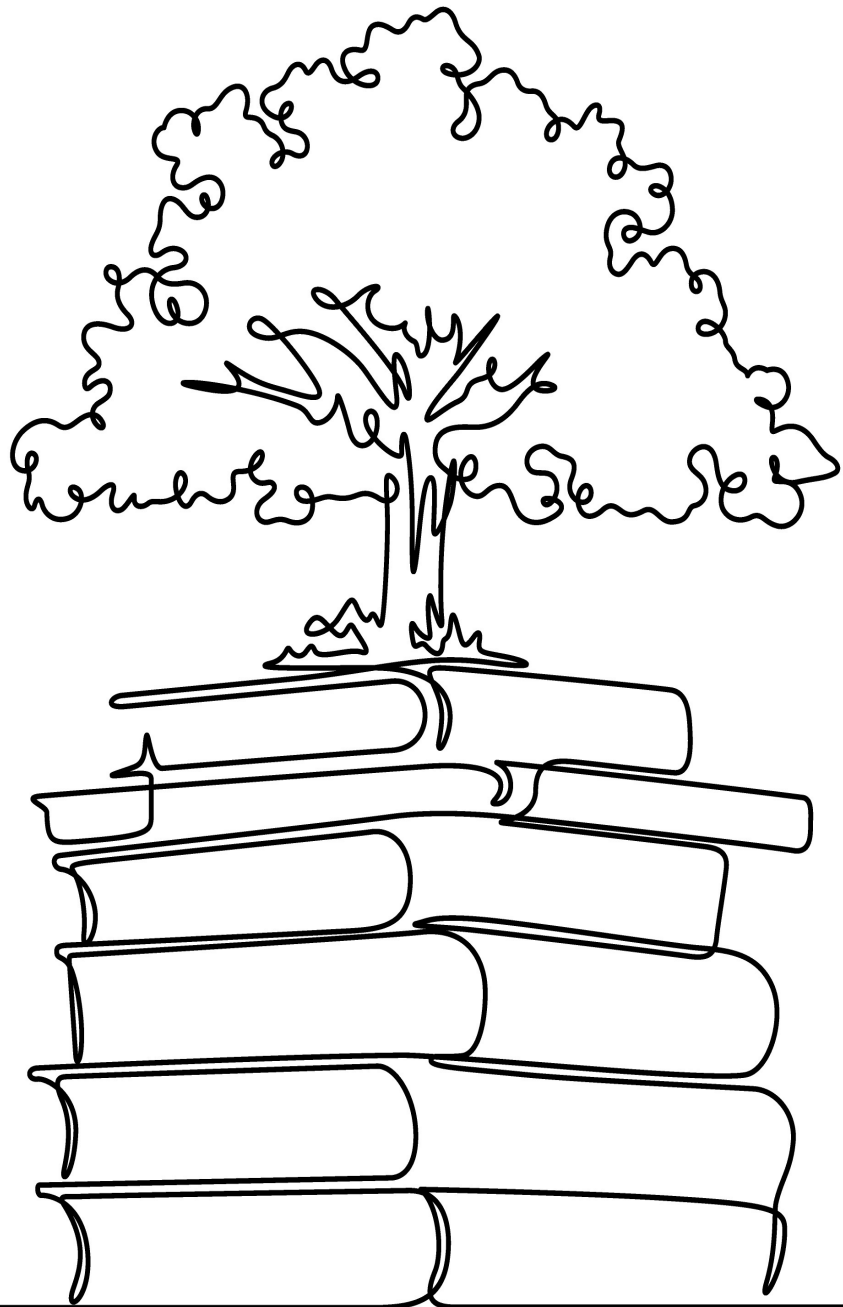
Blended Gifts

- [i Gift and Bequest/DAF \(61\)](#)
- [i Endowed Gift and Bequest \(62\)](#)
- [i Gift and Gift Annuity \(63\)](#)
- [i Gift and Unitrust \(64\)](#)
- [i Gift and Deferred Annuity \(65\)](#)
- [i IRA Gifts and Bequest \(66\)](#)
- [i IRA Gifts and Testamentary UT \(67\)](#)
- [i Gift Annuity and Bequest \(68\)](#)
- [i Lead Trust and Bequest \(69\)](#)
- [i Gift Annuity Interest and Bequest \(70\)](#)
- [i Unitrust Income and Bequest \(71\)](#)
- [i Gift and Testamentary Lead Trust \(72\)](#)



Planned Gifts

- [i Annuity Trust - One or Two Lives \(47\)](#)
- [i Annuity Trust - Term of Years \(49\)](#)
- [i Bequest/Bequest of IRA \(58\)](#)
- [i Education Unitrust \(39\)](#)
- [i Gift Annuity - One or Two Lives \(53\)](#)
- [i Gift Annuity for Home \(54\)](#)
- [i Gift Annuity - Deferred \(55\)](#)
- [i Gift Plus Insurance \(48\)](#)
- [i Gift and Redemption \(37\)](#)
- [i Life Estate Reserved \(52\)](#)
- [i Living Lead Trust \(51\)](#)
- [i Pooled Income Fund \(50\)](#)
- [i Ret. UT/NIMCRUT/FLIP \(44\)](#)
- [i Revocable Trust \(56\)](#)
- [i Sale vs. Unitrust \(46\)](#)
- [i Testamentary Lead Trust \(59\)](#)
- [i Testamentary UT/Gift Annuity \(57\)](#)
- [i Unitrust - Term of Years/FLIP \(42\)](#)
- [i Unitrust - Life Plus Term \(43\)](#)
- [i Unitrust and Insurance Trust \(41\)](#)
- [i Unitrust - One to Eight Lives \(40\)](#)
- [i Unitrust and Sale \(45\)](#)



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