

CHARITABLE GIVING OPPORTUNITIES

“The Secrets Your Advisors Rarely Tell You”

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What is Charitable Giving and Why Do It?

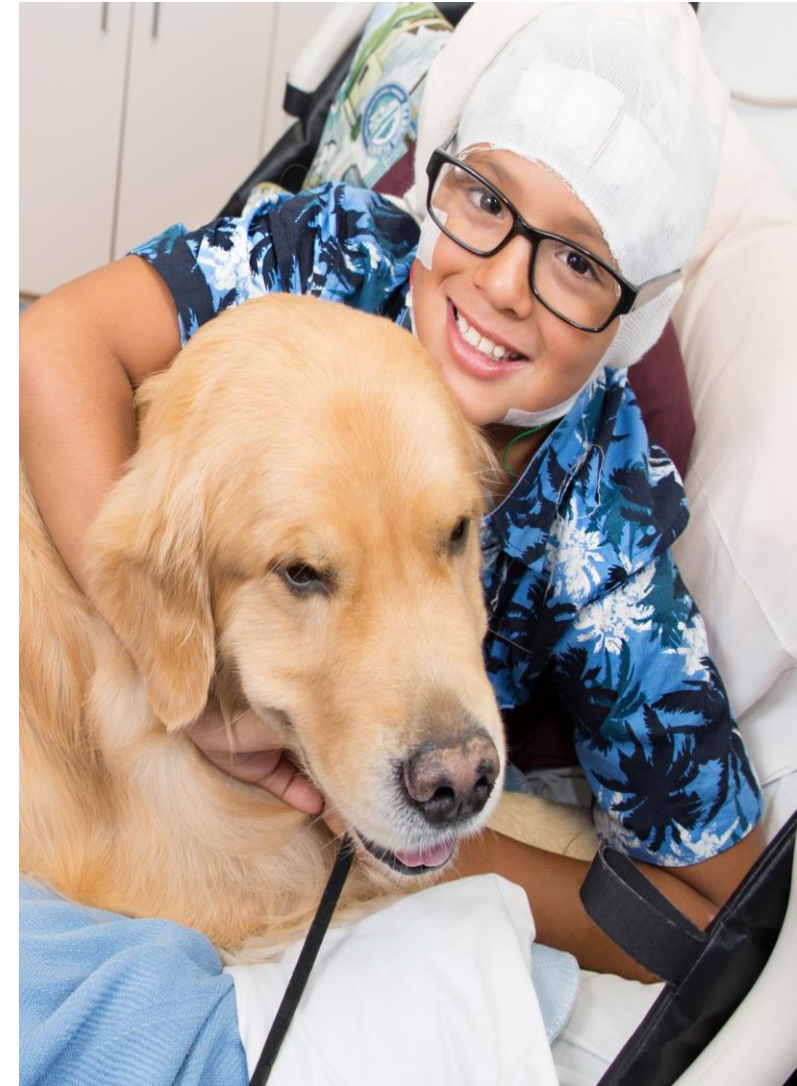
- Support programs, services, causes believe make the world a better place, both now and far into the future
- Certain gift planning instruments can generate income
 - For you
 - For your beneficiaries/heirs
 - Or BOTH
- Giving can result in tax savings
 - Reduce current taxes
 - Deduction against Adjusted Gross Income (AGI)
 - Typically up to 60% for cash and 30% for appreciated assets
- Reduce estate tax
- Gift planning can be structured in a way that achieves the donor's philanthropic goal and maximizes benefits to donor and family



What is Your Why?

Emotions and well wishes for the future

- Express gratitude
- Help people in need
- Invest in a clinician's research, hoping for a cure and a better future (for diabetics, for asthmatics, for children with epilepsy, for childhood cancer, etc)
- Create a legacy, "leave this community a little better than I found it"
- Create future sustainability, endow a program or service in perpetuity through an estate gift



What is Your Why?

Practical, logistical, financial

- A vacation home my family never uses - but if I sell it I will be stuck with a lot of capital gains tax and not that much to show for it.
- How much longer do I want to be a landlord (rental condo) - but if I sell it the capital gains will hurt too much. Plus, I like that rental income.
- Do I trust all my heirs to inherit a lump sum inheritance? What about fairness?
- Life changes: retirement, sale of business, property, home.
- I would love to give more, but most of what I own is in my home or my retirement account.



Why is Gift Planning So Powerful?

What to give, when to give it, how to give it?

Outright Current Gifts

NOW

- Cash
- Retirement plan assets
- Highly-appreciated non-cash assets: real property, publicly traded securities

Gifts that Pay Income

NOW & LATER

- Charitable gift annuities
- Charitable remainder trusts
- Charitable lead trusts

Gifts Deferred

Until Death

(Estate Gifts)

LATER

- Bequests (will, trust)
- IRA beneficiary designations
- Insurance beneficiary designations
- POD accounts

Taxes, Taxes, more Taxes

Estate and Gift Tax in 2023

- The lifetime estate and gift tax deduction for 2023 is \$12,920,000 per individual
 - Sunsets Dec. 31, 2025 - reverting back to \$5 million adjusted for inflation (rate pre Tax Cuts & Jobs Act, 2017)
- Estate Tax Rate: 40%
- Annual gift tax exclusion is \$17,000 per person (to individuals, not to charity)

Long Term Capital Gains & Qualified Dividends

- Can be 0%, 15% or 20% depending upon income level

Additional Taxes

- Medicare: find your cost at www.medicare.gov
- California's top tax rate is 13.3% for taxable income over \$1,000,000 (single) or \$1,198,024 (married filing jointly)

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Use IRA to Fund Donations

AKA: IRA Charitable Rollover (not 401(k) or 403(b))

- 70 ½ years of age
- Avoid taxes on transfers of up to \$100,000 per person, **directly** from IRA to qualified charitable organization
- If 73+ years of age
 - Can satisfy required minimum distribution (RMD) for the year
- You pay no income taxes on the gift. The transfer does not generate taxable income, so you benefit even if you do not itemize.
- Gift not subject to the 60% cash deduction limits on charitable gifts (30% deduction limit for non-cash gifts)
- Reducing your income level may help lower Medicare premiums and decrease amount of Social Security that is subject to tax.

Charitable Rollover Example

Another way to look at something you're already doing

Example - RMD is \$25,000

- Instead of taking the \$25,000 into your checking account and then writing a check for \$10,000
- What if \$10,000 goes **directly** to charity and you take \$15,000?
- You pay income taxes on \$15,000
- You pay no income taxes on \$10,000
- At tax rate of 20%, \$2,000 savings, so....the making the \$10,000 gift cost you \$8,000 (instead of \$10,000)
- You might avoid a Medicare increase. Important to plan.

Monthly donor example

- \$50 per week donation = \$2,600 per year.
- That costs the donor \$3,250. (\$2,600 + income taxes)
- Charitable rollover instead. \$2,600 to **directly** to charity, save \$650 in taxes.

Name Charity as Beneficiary of Retirement Assets

Pre-tax assets

- IRA
- 401(k) or 403(b) accounts
- These assets left to heirs are subject to ordinary income taxes
 - Heirs may be receiving less than you think they will
- These assets left to charity are tax exempt
 - So 100% of the value supports the charities mission!

Who Gets What – It Matters

\$2.5 million estate = \$1.5 million IRA + \$1 million House

IRA to Heirs and House	to Charity
\$1,500,000	IRA to Heirs
\$555,000	Federal tax
\$199,500	CA tax
\$745,500	To Heirs
\$1,000,000	House to Charity, no tax paid

\$1,745,000 total transferred

IRA to Charity and	House to Heirs
\$1,500,000	IRA to Charity
0	Federal tax
\$1,000,000	House to Heirs
0	Step-up in basis, no tax
\$1,000,000*	To Heirs

\$2,500,000 total transferred

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Charitable Gift Annuity (CGA)

- Simple agreement
- Irrevocable, contract with a specific qualified charity
- No lawyers or fees
- Rate based upon age at time of gift (American Council on Gift Annuities – ACGA)
- Immediate income tax deduction
- Secure lifetime income stream

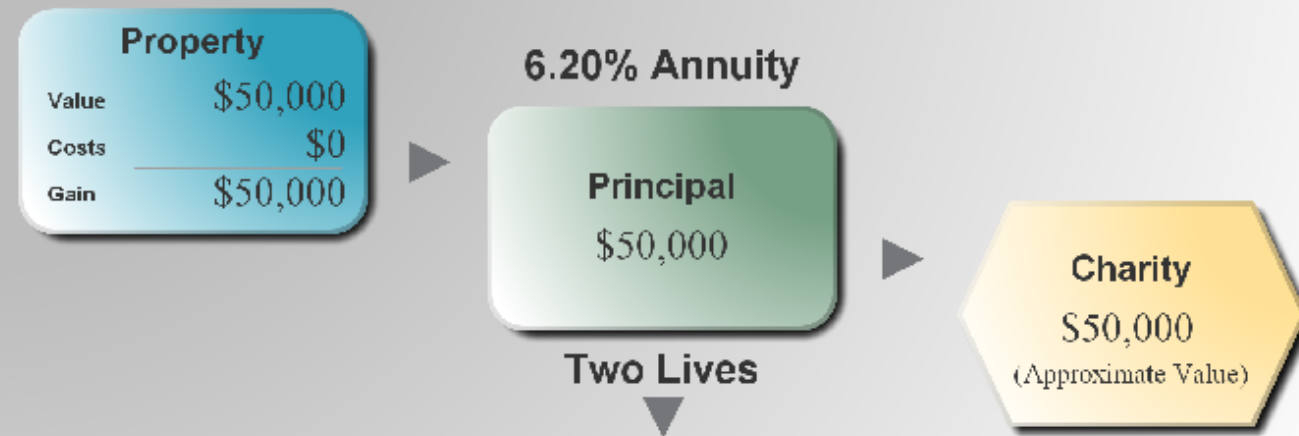
Single Life	Rates 10/2023
Age	Rate
65	5.4%
70	5.8%
75	6.9%
80	7.6%
85	8.1%
90	9.7%

Two Lives	Rates 10/2023
Younger Age	Rate
65	5.0%
70	5.5%
75	6.2%
80	6.9%
85	8.2%
90	9.5%

Charitable Gift Annuity (CGA) – example fund w/ cash

Charitable Gift Annuity

Prepared For Great Planner (76)
Prepared For Great Planner Partner (76)



1. Gift property to charity. Partial bypass \$50,000 gain may save \$2,951. Income tax deduction of \$19,675 may save \$4,328.

2. Annuity of \$3,100.00 for two lives. Tax-free amount \$0.00. Estimated two lives payout of \$61,070. Effective payout rate 7.2%.

3. Annual payments for two lives. Property passes to charity with no probate fees. There are also no estate taxes, if married.

- Donor Age – 75
- 2 Beneficiaries – Donor & spouse (75)
- Funded with Cash - \$50,000
- Tax deduction - \$19,675 (22% tax bracket)
- Annual payments to donor for life - \$3,100 (fixed)
- 6.2% payout rate

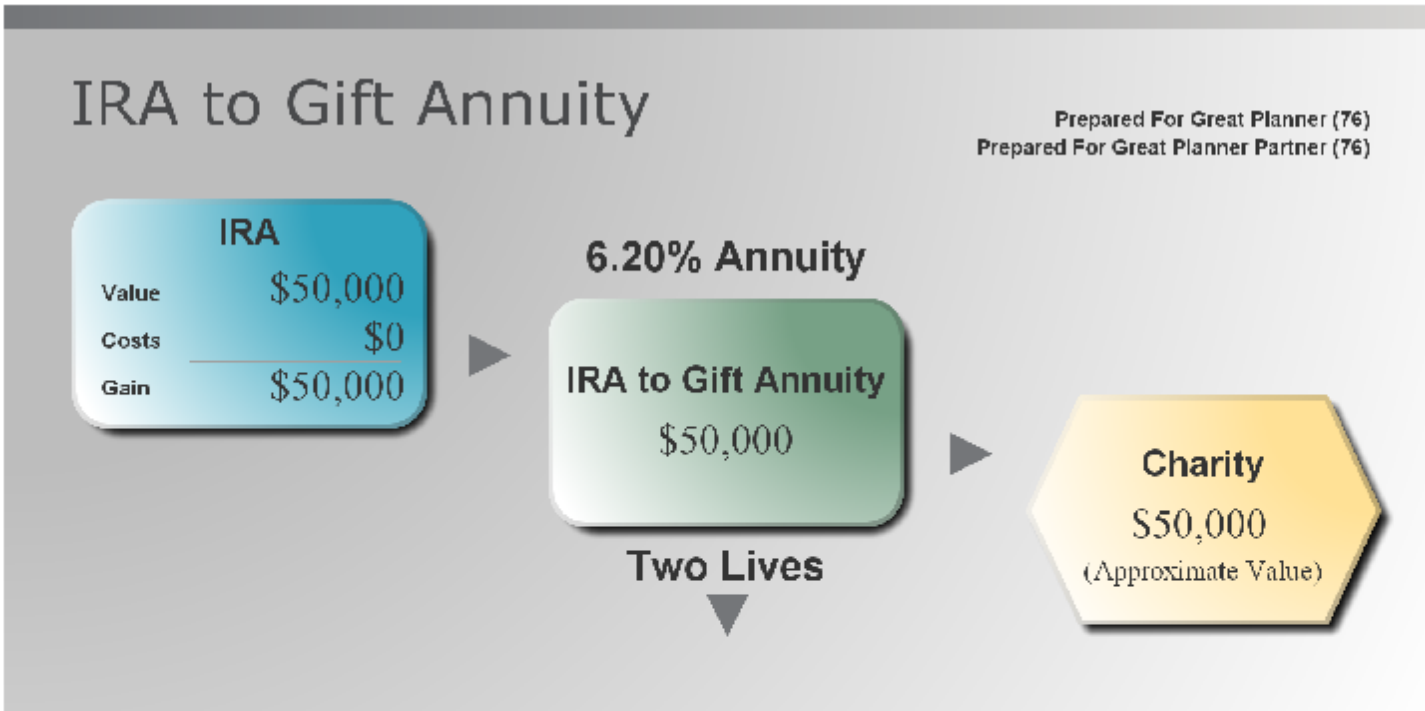
New One –Time CGA Option

SECURE Act 2.0 – as of Jan 1, 2023

IRA Rollover to Charitable Gift Annuity

- 70 ½ years old +
- Fund a CGA directly from your IRA
- May do once in a lifetime
- Up to \$50,000 per person (will adjust for inflation)
- Reduces RMD from IRA the year it's funded
- Same benefit as giving to charity directly from IRA (IRA Rollover) because RMD not taken as income, pay no ordinary income taxes on amount

Charitable Gift Annuity (CGA) – fund w/ IRA rollover



1. IRA for gift annuity. Tax-free IRA rollover. Ordinary income payouts from gift annuity.

2. Annuity of \$3,100.00 for two lives. Tax-free amount \$0.00. Estimated two lives payout of \$61,070.

3. Annual payments for two lives. Property passes to charity with no probate fees. There are also no estate taxes, if married.

Donor Age – 75

Beneficiaries – Donor & spouse (75)

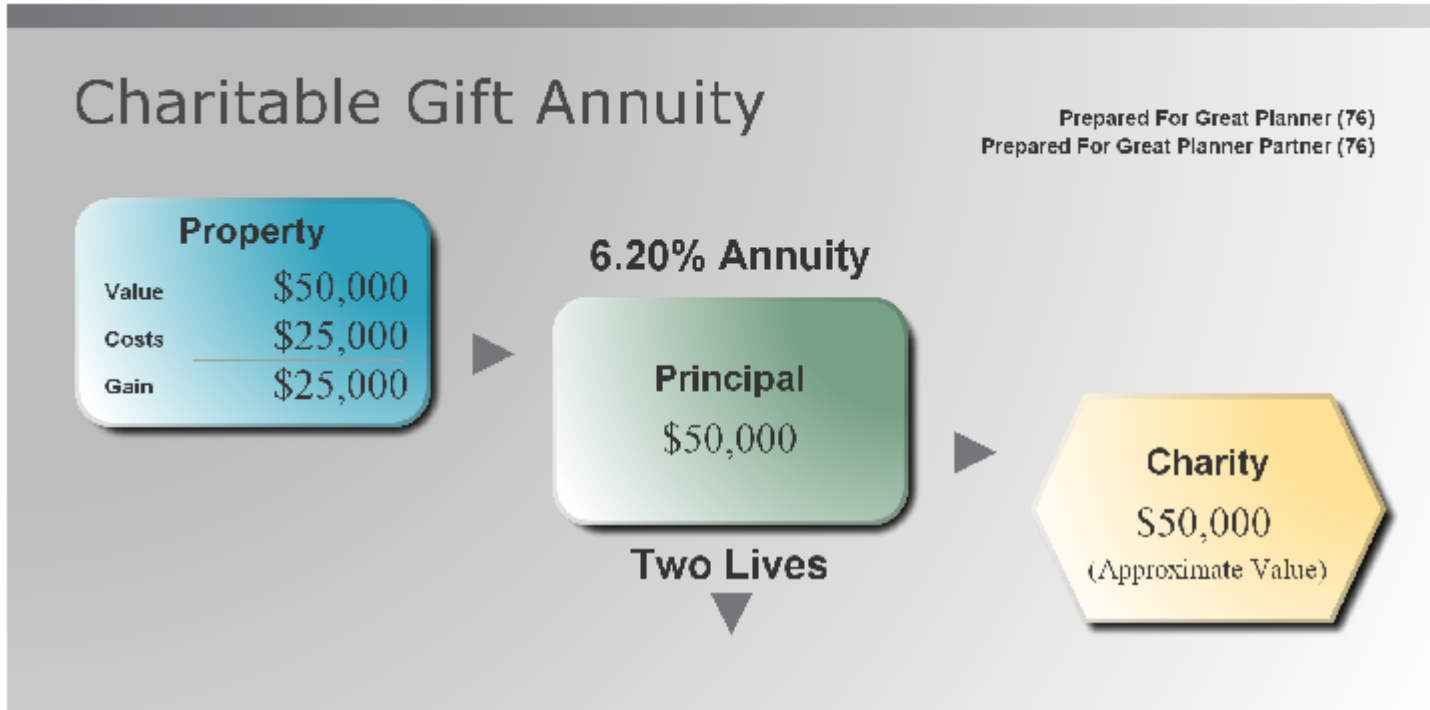
Funded with IRA Rollover - \$50,000

Annual payments to donor for life - \$3,100 (fixed)

6.2% payout rate

No tax deduction, because there's no income. But other benefits of avoiding taxable income apply. Especially helpful for non itemizers.

Charitable Gift Annuity (CGA) – fund w/ appreciated securities



1. Gift property to charity. Partial bypass \$25,000 gain may save \$2,164. Income tax deduction of \$9,837 may save \$2,164.

2. Annuity of \$3,100.00 for two lives. Tax-free amount \$666.34. Estimated two lives payout of \$61,070. Effective payout rate 6.9%.

3. Annual payments for two lives. Property passes to charity with no probate fees. There are also no estate taxes, if married.

- Donor Age – 75
- Beneficiaries – Donor & spouse (75)
- Funded with appreciated securities - \$50,000
- Annual payments to donor for life - \$3,100 (fixed)
- 6.2% payout rate
- Bypass gain may save \$2,164 (15% cap gains bracket)
- Tax deduction of \$9,837 (22% tax bracket)

Charitable Remainder Trust

1st - Income for you/heirs/beneficiary

2nd - Remainder to charity

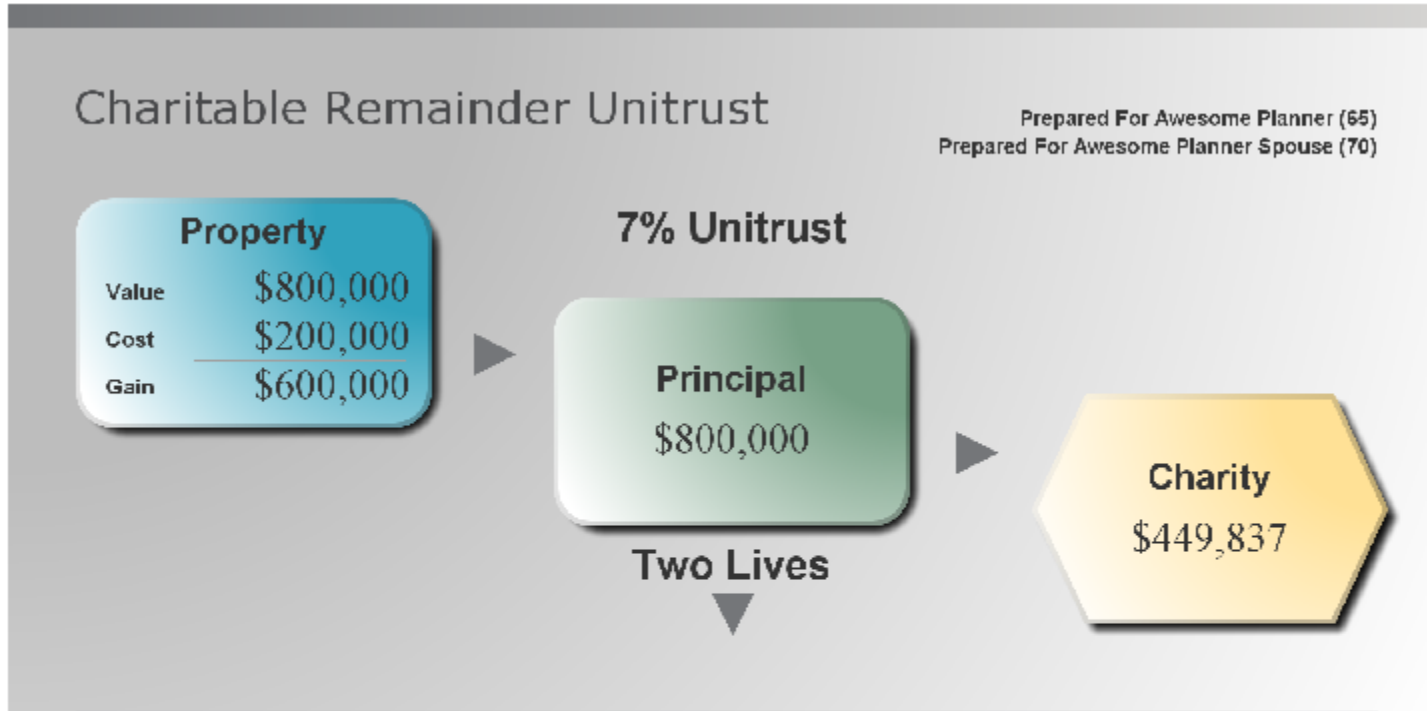
- Attorney drafts agreement
- Irrevocable: Remainder after term must go to qualified charity(ies). Specific charity can be changed.
- Gain immediate income tax deduction
- Reduces future estate taxes
- Timeframe can be life or fixed number of years
- Income benefit to yourself, heirs, beneficiary of choice
- Several variations mostly having to do with fixed or variable % payout

Charitable Remainder Trust

Most Advantageous Use

- Appreciated assets (i.e., publicly traded securities, real estate including rental properties)
- Considered best asset to use to fund a CRT since all capital gains and/or recapture tax would be bypassed by the donor AND a partial income tax deduction is available to the donor based upon the full market value of the asset.
- Cash may be used, but will not take advantage of the same capital gains bypass benefits.
- Mortgaged real estate may not qualify unless loan can be paid off prior to transfer.

Charitable Remainder Trust – ex. funded w/ property sale



1. Give asset, sell Tax-Free.
Bypass up to \$600,000 gain may save \$90,000. Income tax deduction of \$194,472 may save \$42,784.

2. UT annual income \$56,000. Income payable in annual amounts. Total estimated income in 28.5 years \$1,225,570. Effective pretax rate 7.4%.

3. If trust earns 5%, pays 7%, then decreases by 2%. After two lives, trust passes without probate to charity.

- Married couple is donor and beneficiaries – 65, 70
- Funded with sale of appreciated property - \$800,000 sale. \$200,000 cost basis.
- Annual payments to donor for life - \$56,000 (fixed)
- 7.0% payout rate
- Bypass gain may save \$90,000 (15% cap gains bracket)
- Tax deduction of \$194,472 (22% tax bracket)

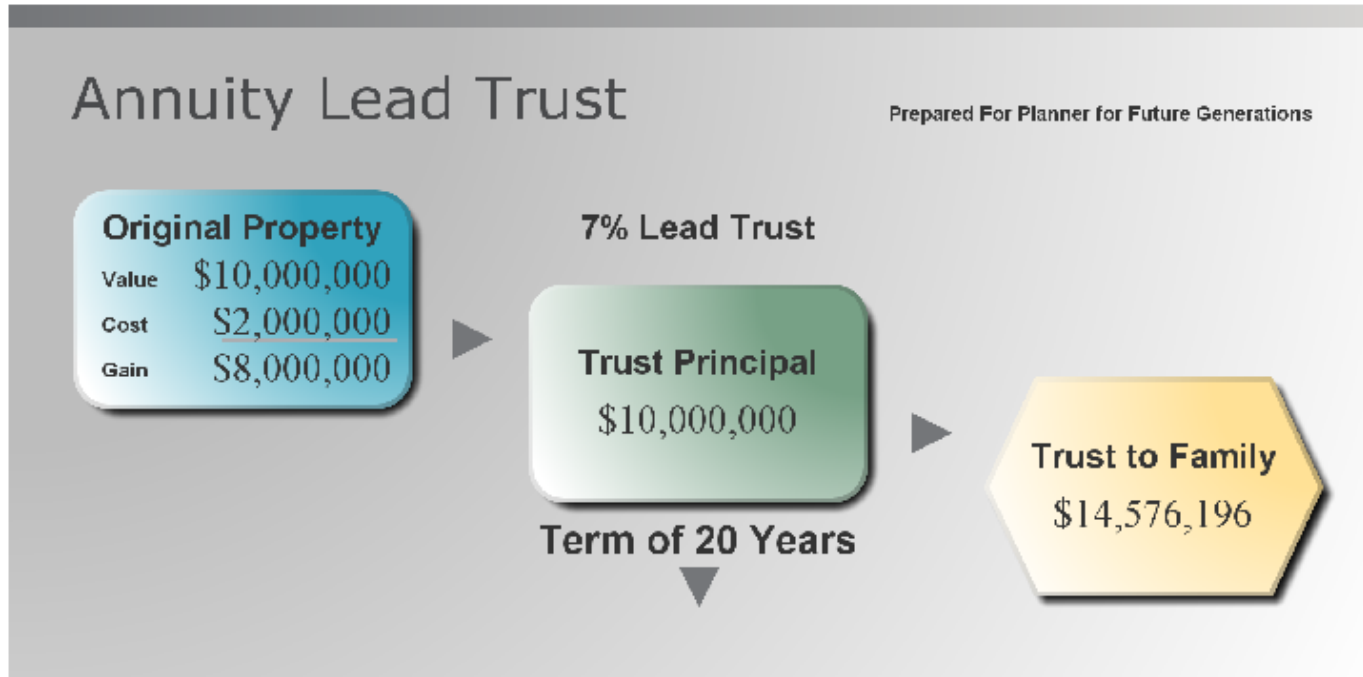
Charitable Lead Trust

1st – Gifts to Charity

2nd – Remainder to Family

- Similar in concept to Charitable Remainder Trust, but how it is different is VERY important
 - Charity is the LEAD beneficiary, meaning charitable donations happen first (per terms of the trust)
 - After charity receives gifts according to terms of trust, trust value transfers back to family/heirs
- Allows families to transfer wealth to future generation in a more tax advantaged manner
- Gain immediate income tax deduction
- Reduces future estate taxes
- Timeframe can be life or fixed number of years

Charitable Lead Trust – Example



1. Gift asset to lead trust, charitable gift tax deduction of \$8,435,140. Deduction reduces taxable gift from \$10,000,000 to \$1,564,860.

2. Income of 7.00% to charity for 20 years. No income tax. First year income \$700,000. Total charitable payments in 20 years \$14,000,000.

3. After term of years, trust distributed to family. Passing \$4,576,196 growth to family saves \$1,830,479 in gift or estate taxes.

- Married couple is donor, 65, 70
- Funded w/ highly appreciated asset. \$2MM basis. \$10MM value.
- Charity(ies) receive donations for 20 years. Avg. \$700,000 per year.
- After 20 years, assets pass back to family. \$14.7 MM.
- Tax deduction of \$8,435,140 (37% tax bracket, cap gains bracket 20%)

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- Insurance beneficiary designations
- POD accounts
- **Retained life estate**

Options for Using Property in Gifting Strategies

Retained Life Estate

- Gift your home to charity, but continue to live in it for your lifetime
- Receive immediate tax deduction
- Deduction up to 30% of AGI with 5-year carry forward

Bargain Sale

- Sell property to a charity at a significantly reduced price
- Receive charitable deduction for the difference between sale price and appraised value
- Deduction up to 30% of AGI with 5-year carry forward

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Donor Advised Funds (DAF)

- Like having your own private Foundation
- Simple to set up through brokerage firm or a local community foundation
- Once DAF is created, donor has no administrative responsibilities
- Most have minimum 5% annual disbursement level
- Administration costs are usually a small percentage of contributions made to the fund, transactions fees, standard investment fees
- Immediate tax deduction, but allows you to make charitable decisions on your own timeline. You can grow your DAF and later decide which charities will receive the funds.
- Currently cannot fund with QCD

More About Donor Advised Funds

- Prohibited from making gifts to individuals.
- Typically may only issue gifts to 501(c)(3) charitable organizations
- DAF gifts cannot be used to purchase anything with a fair market value to the donor (ex Gala Tickets)
- Contributions are limited to cash equivalents, publicly traded securities, and mutual funds. In some cases, high-value, non-cash assets may be accepted by the sponsoring organization to be liquidated prior to deposit, which must be considered case-by-case and may result in additional fees.

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Bequests & Beneficiary Designations

The Ultimate Compliment to Any Non-Profit Organization

- Philanthropic giving after one's lifetime
 - Will or trust
 - Beneficiary designations: IRA, securities accounts, life insurance policies, "accounts", savings bonds, commercial annuities
 - Pre-tax accounts are wise choices for philanthropy because of taxation. Income taxes removed prior to heirs receiving. Charities are tax exempt.
 - **Largest form of charitable giving**
- Can be stated as percent, specific amount, or specific asset
- No income tax deduction during life, estate tax deduction later (if needed)
- Most non-profit organizations have a legacy society and would be honored to learn about your plan, both to recognize you now AND to ensure your future gift can be used according to your wishes.

Thank You & Always Happy to Help

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