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Helping individuals plan their year end charitable gifts combines an understanding of the tax tables, the benefits received from a charitable income tax deduction, and various charitable gift techniques. According to IRS statistics 68% of Americans do not itemize their deductions but most *major* charitable gifts exceed the standard deduction amount; therefore, donors should itemize deductions to take full advantage of the government bonus received fro the charitable contribution deduction.

A. It all begins with the desire to help and the tax tables

If your 2007 taxable income is.....Your gift savings tax bracket is....					
Single	**$7,825 - $31,850**	**$31,850 - $77,100**	**$77,100 - $160,850**	**$160,850 - $349,700**	**$349,700+**
Married	**$15,650- $63,700**	**$63,700 - $128,500**	**$128,500 - $195,850**	**$195,850 - $349,700**	**$349,700+**
Saving bracket	**15.00%**	**25.00%**	**28.00%**	**33.00%**	**35.00%**

B. You can leverage a charitable deduction to offset capital gains

Offset Capital Gains with a Charitable Deduction			
Tax Bracket	**Capital Gain Bracket**	**Charitable Gift**	**Capital Gain Offset**
25.00%	**15.00%**	**$1.00**	**$1.66**
28.00%	**15.00%**	**$1.00**	**$1.86**
33.00%	**15.00%**	**$1.00**	**$2.20**
35.00%	**15.00%**	**$1.00**	**$2.33**
Tax Bracket divided by the Capital Gain Bracket = Gain offset by a $1.00 of charitable gift.			
Gain divided by Tax Bracket = Gift to offset the gain			

Offset Capital Gains with a Charitable Deduction
For additional benefits add the state income and capital gains bracket, and any benefit of a charitable deduction on the state income tax return. Assumes the charitable deduction amount is fully deductible. 15% tax bracket payers pay a 10% capital gains tax. The 3% reduction in *all* deductions begins with an adjusted gross income of $156,400 in 2007. Maximum reduction in charitable deductions is 80%.

C. Itemize or standard deduction

When to take the standard deduction.
How high do deductions have to be to be useful?

	Single	*Joint*	*Head of Households*	*Married filling separately*
Basic	*$5,350*	*$10,700*	*$7,850*	*$5,350*
Over 65	*$6,650*	*$11,750(one)*	*$9,150*	*$6,400*
		$12,800(two)		
Blind	*$6,650*	*$11,750(one)*	*$9,150*	*$6,400*
		$12,800(two)		
Over 65 & blind	*$7,950*	*$12,800(one)*	*$10,450*	*$7,450*
		$14,900(two)		

Technique 1: **Give appreciated long-term stock, mutual funds or other investments (held one year and one day) instead of cash when you.....**

A) want to sell a stock that has appreciated because you think it will decrease in value;

B) you are over concentrated in one investment and need to change your asset allocation;

C) you have a very large long-term capital gain in a short time period (but more than a year and one day).

Should you give cash, sell stock and gift the cash, or give the securities outright?

	Option A Give $5,000 in Cash	Option B Sell Securities & Give Cash	Option C Give Securities Outright
Gift Value	$5,000	$5,000	$5,000
Ordinary income tax savings @ 25%	$1,250	$1,250	$1,250
Capital gains tax saved or paid, assuming 15% tax rate and $4,000 gain	$0	$600 paid	$600 saved
Total net tax savings	$1,250	$650	$1,850

1a) Should you give stocks that have appreciated a little or stocks that have appreciated significantly?

Investment A has a cost basis of $500 and a value of $5,000.
Investment B has a cost basis of $4,000 and a value of $5,000.

	Gift of Investment *A* Assuming 15% Capital Gains Tax	Gift of Investment *B* Assuming 15% Capital Gains Tax	Difference
Gift value	$5,000	$5,000	$0
Ordinary income tax savings @ 25%	$1,250	$1,250	$0
Capital gains tax saved @ 15% (A = gain of $4,500) (B = gain of $1,000)	$675	$150	A) $525 more
Total tax saved	$1,925	$1,400	A) $525 more
After tax cost of gift	$3,075	$3,600	B) $525 less

Technique 2: **Donate appreciated stock in Corporation ABC and use the deduction to offset capital gains on the sale of additional Corporation ABC stock.**

Or use the cash proceeds from the sale to purchase additional stock in another security.

Technique 3: **Donate appreciated stock in Corporation ABC and use the deduction to offset income taxes on the withdrawal of cash from an IRA.**

Or use the IRA cash withdrawal to repurchase stock in Corporation ABC to increase the cost basis in the stock.

Technique 4: **Establish a charitable gift annuity to receive a charitable deduction and use the deduction to offset capital gains on stock sold in donor's name; will result in a charitable deduction to offset the gain and increased income for the donor.**

Practical examples for a $10,000 charitable gift annuity with donor(s) in *25% bracket*, deduction based on the July 2007 AFR of 6.0%

1) a 65 year old donor establishes a charitable gift annuity agreement with 6.00% quarterly payments, charitable deduction is $4,042 which offsets $6,709 in capital gains.

2) a 75 year old donor establishes a $10,000 charitable gift annuity agreement with 7.10% quarterly payments, charitable deduction is $4,749 which offsets $7,883 in capital gains.

3) two donors aged 75/75 establish a charitable gift annuity agreement with 6.30% payments, charitable deduction is $4,078 which offsets $6,769 in capital gains.

Technique 5: **Establish a gift annuity for another person. Donor gets the income tax deduction while beneficiary receives income. Donor should use cash but may use appreciated securities reporting both a partial capital gain and a income tax deduction; net effect may be tax payments or relief.**

1) an 80 year old mother establishes a $10,000 charitable gift annuity agreement with a 5.70% quarterly payment for the benefit of a 60 year old son. Income tax deduction $3,691 for mother, son receives $570.00 with $261.63 income tax-free guaranteed for life. No gift tax as irrevocable life interest is less than $12,000. Life interest is $6,309 which is less than the annual $12,000 gift exclusion.

2)an 80 year old mother establishes with $10,000 in stock (cost basis $5,000) a charitable gift annuity agreement with a 5.70% quarterly payment for the benefit of a 60 year old daughter. Income tax deduction $3,691 for mother. In the 25% income tax bracket this deduction would completely offset $6,127 in capital gains if the mother itemizes her deductions.

Daughter receives $570.00 with $260.00 income tax-free. Mother must report a $3,154 capital gain. The income tax deduction of $3,691 offsets $6,127 in capital gains. Since the tax savings for the deduction ($3,691 * 25% = $922.75) is greater than the tax liability for the gain ($3,154 * 15% = $473.10) the net effect is no capital gains tax.

The mother's present interest gift value for the daughter is $6,309 and must be reported on IRS Form 709 if *total* gifts to daughter are over $12,000, even if no gift tax will be paid.

Technique 6: **Convert savings bonds into a Flexible Deferred Retirement Income Charitable Gift Annuity.**

1) a 65 year old retiree with adequate income and a significant IRA balance has $50,000 in US Savings Bonds. The interest on the bonds will be taxed when the bonds are cashed or the individual dies. The individual wishes to convert the bonds into a future income. Savings bond conversions to HH bonds are no longer allowed by the US Treasury.

On September 1, 2006 the donor redeems $5,000 in 4% interest US Savings Bonds issued in June 1982 at a cost of $2,500. Redemption value is $13,200, of which includes $10,700 in accumulated interest. The bonds reach final maturity on June 1, 2012 when they will no longer earn interest. Consult the web site: www.savingsbonds.gov to determine the value of any U.S. savings bond.

To offset the income tax on the $10,700 in accumulated and reportable interest the donor donates $25,000 in appreciated securities (cost basis $5,000) to a flexible deferred retirement charitable gift annuity. The agreement provides payments to begin as early as age 68 and as late as age 75 with a target annuity date of age 71. The target age represents the date of final maturity of the original bonds in 2012. The charitable deduction for the annuity agreement equals $13,327, a complete offset in reportable interest.

The age 68 payment rate is 6.41% fixed and guaranteed for life. The payment rate for the target date in 2012 (age 71) is 9.00%, and the payment rate increases to 11.8 % for age 75.

Technique 7: **Bargain sale stock or other property to charity. Donor receives cash plus a charitable contribution deduction. Donor must pay a capital gains tax on the appreciation associated with the cash received. Transaction is completed commission free. Charitable deduction may**

offset most or all of the capital gains tax.

Donor has $10,000 in appreciated Microsoft stock with a cost basis of $2,000. Donor would like to sell the stock to charity for $5,000. The cost basis is pro-rated between the gift portion and the sale portion. $1,000 of the cost basis is attributed to the $5,000 cash received resulting in a capital gain of $4,000.

The donor receives a charitable contribution deduction of $5,000 for the gift to the charity. The capital gain is taxed at 15% resulting in a tax due of $600.

The charitable contribution deduction for this 28% taxpayer saves $1,400 in current income taxes. The net tax savings is $800 which is added to the $5,000 cash to give the donor an economic value of $5,800.

Using the same facts the donor would pay zero taxes when he/she receives $7,887 in cash and makes a $2,113 gift to the charity. The tax liability of $591 is offset completely by the tax savings of $592 generated by the charitable deduction.

Technique 8:

Substitute charitable gift annuity income for stock dividends and make a significant outright gift to your favorite charity.

Donors aged 70/70 have $150,000 (cost basis $75,000) in 3,000 shares of Merck stock paying a 3.00% dividend or $4,560 per year before taxes and $3,876 after taxes at 15%. The donors have seen the stock value vary greatly over the last 10 years. They are now retired and looking to diversify their invested assets to provide more fixed retirement income.

The donors also wish to help their local Hospital with the new Cardiac Center because of a family experience with the hospital and heart disease. They would like to make a leadership gift but fear it will significantly reduce their retirement income.

Solution: **The donors separate the stock into two equal $75,000 parts. The first $75,000 part is gifted to the hospital to establish a two-life charitable gift annuity paying a fixed guaranteed lifetime payment of 5.90% or an annual before tax income of $4,425. The after tax income computed for both the ordinary income portion and the capital gains portion of their payment results in an after tax income of $3,756. While this represents a small decrease (3%) in net taxable income this shortfall is made up by the impact of the current tax savings.**

In addition to the guaranteed income they receive two income tax deductions. The first tax

deduction is for the full fair market value of their outright $75,000 gift and the second deduction is a partial deduction for the gift annuity they established in the amount of $27,440 (AFR 6.0%). The total tax savings of $102,440 spread over a few years result in total income tax savings, the government bonus for being charitable today, of $28,683 (28% bracket).

The deduction limit for gifts of appreciated property is 30% of Adjusted Gross Income (AGI), donors must take the deduction in the year of the gift and may use five additional years to exhaust the deductible amount. The donors take the first year bonus and use it to travel to Australia to see their new grandchild.

Other items to consider:

1. **Short term vs long term holdings**
2. **Total of itemized deductions**
3. **Appreciated vs depreciated securities**
4. **Limitations on deductibility of gifts (50% and 30% of AGI)**
5. **Valuation date for donated listed securities**
6. **IRS Form 8283 requirements**
7. **Mutual fund transfer instructions**
8. **Stock/Bond power requirements**
9. **Documentation requirements for joint owners, deceased owners, trust registrations and corporate registrations**
10. **Multiple stock certificates, book entry delivery and signature guarantees**

Notes: