

7 Charitable strategies to increase income and decrease taxes

March, 2019

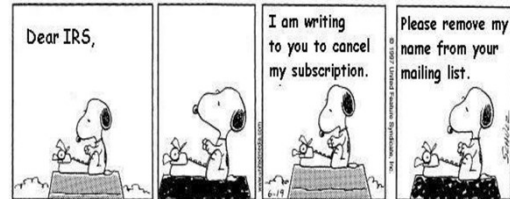


7 Charitable strategies to increase income and decrease taxes

James E. Connell FAHP, CSA
Charitable Estate and Gift Planning Specialists
P.O. Box 3335, Pinehurst, NC 28374
Email: james@connellandassoc.com
Internet: www.connellandassoc.com

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Snoopy and the IRS



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Quotes for the day

- *80% of Americans engage in charitable giving each year.*
- *Wealthy people are not necessarily philanthropists. But philanthropists are usually wealthy.*
- *Which charity is part of your life story?*



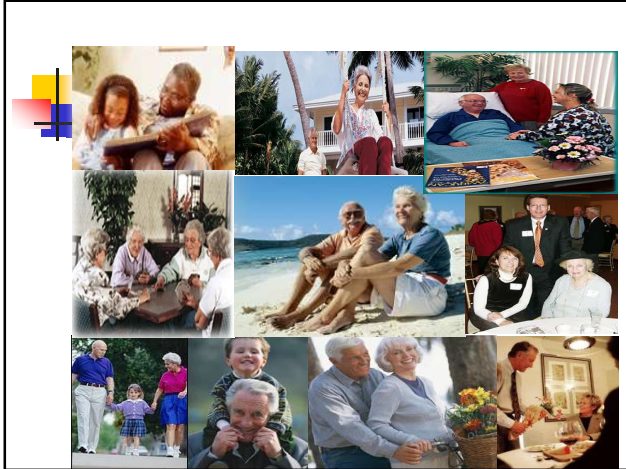
What is a Legacy?

- It is planting seeds in a garden you never get to see.
- **Lin-Manuel Miranda**...line from Hamilton



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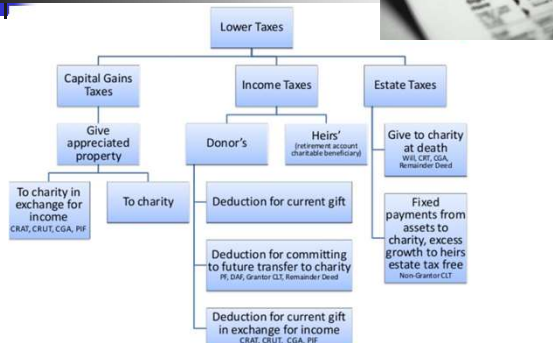
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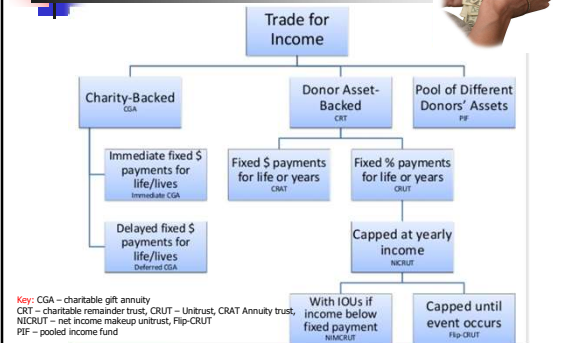
Agenda

- Let's start with reviewing the changes made in the 2018 income and estate tax laws
- Discuss the stages of planning
 - Ask yourself **Who, what, when** and **how** would you distribute your life's work
- Review of assets held by most Americans
- Simple charitable strategies to increase income and/or decrease taxes

What gifts can do for you!



What gifts can do for you!



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New 2018 Federal tax rates

New Tax Rates

There are still seven brackets, but tax rates dropped. The highest rate was 39.6% and is now 37%.

Bracket	Individual	Filing Jointly
10%	\$0 to \$9,525	\$0 to \$19,050
12%	\$9,525 to \$38,700	\$19,050 to \$77,400
22%	\$38,700 to \$82,500	\$77,400 to \$165,000
24%	\$82,500 to \$157,500	\$165,000 to \$315,000
32%	\$157,500 to \$200,000	\$315,000 to \$400,000
35%	\$200,000 to \$500,000	\$400,000 to \$600,000
37%	\$500,000 and above	\$600,000 and above

Source: Tax Cuts and Jobs Act of 2017

PA taxes and charity

- **Pennsylvania** is one of only two states to exclude virtually every type of **retirement** income from **taxation** according to Kiplinger.
 - Public and private pensions, railroad **retirement benefits** and all Social Security income are excluded from **taxable** income for tax purposes within the state."
 - **3.07%** rate on all taxable income
- Charitable gifts are **not** deductible for **Pennsylvania** income tax purposes
- There are a gift techniques that will benefit PA residents

Capital gains Federal rates unchanged

- Capital gains rates on assets held 12 month+
 - 10% or 12% bracket = **0% tax**
 - 22%, 24%, 32%, 35% brackets = **15% tax**
 - 37% bracket = **20% tax**
- Net investment tax on **AGI** over \$200,000 or \$250,000 is **+3.8%**
- Collectables tax = 28%

Fewer individuals will itemize

2019 CHARITABLE PLANNING FORECAST

FIDELITY CHARITABLE

The Tax Cuts and Jobs Act

Tax reform provision

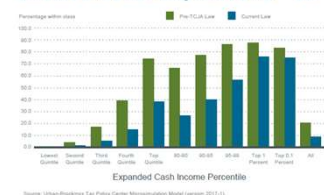
- 7 tax brackets maintained
- Lowered rate for most brackets, with a top rate of 37%
- Nearly doubled the standard deduction

Impact to charitable giving:

Fewer households will itemize deductions



Change in the Share of Taxpayers Taking Itemized Deductions for Charitable Giving Under the TCJA



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Know your standard deduction by filing status

	Single	Joint	Head of household	Married filing separately
Basic	\$12,000	\$24,000	\$18,000	\$12,000
Over 65	\$13,600	\$25,300 (1) \$26,600 (2)	\$19,600	\$13,300
Blind	\$13,600	\$25,300 (1) \$26,600 (2)	\$19,600	\$13,300
Over 65 & blind	\$15,200	\$26,600 (1) \$29,200 (2)	\$21,200	\$14,600

What qualifies as a deduction?

- Itemized deductions include:
 - State and local taxes: **\$10,000 limit**
 - Mortgage interest: \$750,000 mortgage limit,
 - no home equity interest deduction unless used to improve home
 - Medical expenses: exceed 7.5% of AGI
 - Charitable gifts: cash up to 60% of AGI
 - Appreciated stock gifts up to 30% of AGI
 - An itemized charitable deduction is the government bonus for being charitable today**

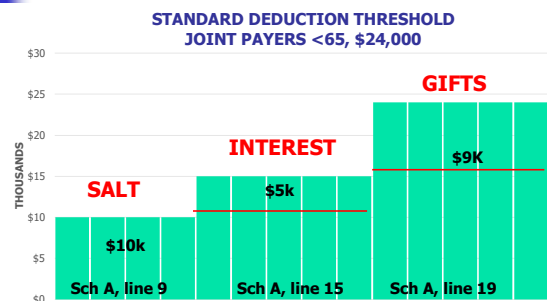


Standard deduction by filing status

- Example 1:** A couple both over 65 would have to have deductions over the threshold of **\$26,600** to itemize and receive an additional tax benefit.
 - Under the threshold charitable gifts are not deductible.
- Example 2:** A single filer under 65 would have to have deductions over the threshold of **\$12,000** to itemize and receive an additional tax benefit.
 - Under the threshold charitable gifts are not deductible.

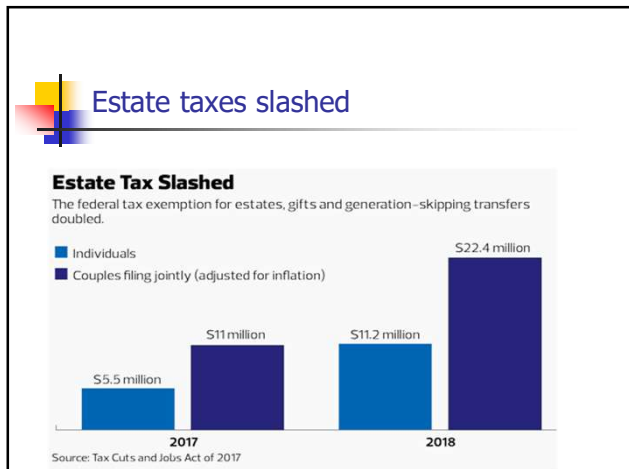
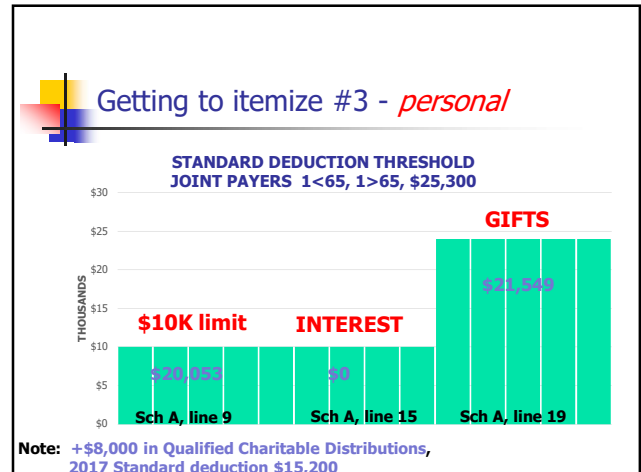
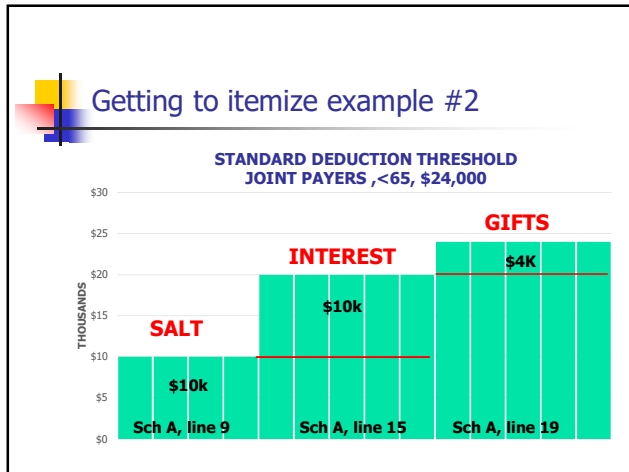


Getting to itemize example #1



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Effective giving

- Bunching gifts in certain years
 - Every other year gifts
- Appreciated asset gifts
 - Capital gains tax not taxed
- IRA rollover gifts
 - No deduction but no tax on income
 - Must qualify
- Donor advised funds
 - Gifts to reach over threshold deduction amount

Donor-advised funds

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Effective giving #1 Bunching deductions

- Skip year giving or bunching deductions will increase.
- Not a new strategy, have been used by seniors for years

Skip-year giving



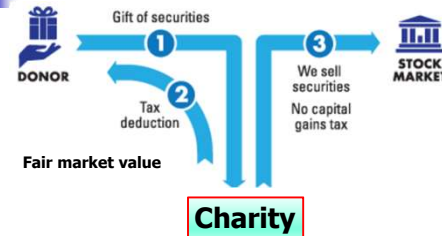
John's Pre-TCJA Charitable Giving Strategy

DONATION	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
DEDUCTION	Itemize	Itemize	Itemize	Itemize	Itemize

John's Post-TCJA Charitable Giving Strategy

DONATION	\$20,000	\$0	\$20,000	\$0	\$20,000
DEDUCTION	Itemize	Standard Deduction	Itemize	Standard Deduction	Itemize

Effective giving #2 Give appreciated assets



Example: Sara has accumulated 1,000 shares of Apple stock over the last 5 years. Her 1,000 shares are currently valued at approximately \$160,000. Her cost basis on the 10 shares of Apple she is gifting to charity is \$60 per share. She gets a deduction of \$1,600 and avoids any tax on the \$1,000 capital gains.

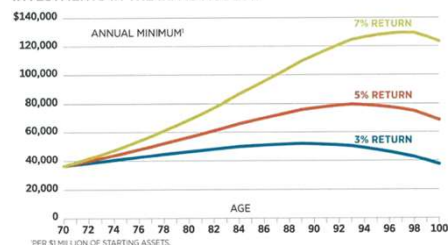
Effective giving #3 Qualified charitable distributions "QCD"

- Allows for IRA gifts to charity
 - Both regular IRA accounts and Roth IRA accounts are eligible, IRA check books
- Charity must be eligible
- Individual must be 70½ or older on the date of contribution
 - Qualified Charitable Distribution will qualify for the Required Minimum Distribution requirements of IRA
- \$100,000 limit
 - \$200,000 from couple with separate accounts
- Transfers from other pensions and profit sharing plans, i.e. Keogh, 401k, 403b, etc., are not allowed
 - Possible to rollover above accounts to IRA if plan and time permit
- **Pennsylvania:** Make gifts using IRA – QCD transfers

Effective giving #3 Qualified charitable distributions "QCD"

IRAS: THE MANDATORY WITHDRAWALS

THE AMOUNT THAT MUST BE TAKEN OUT AND TAXED IS LIKELY TO GROW OVER THE YEARS, EVEN IF THE RETURN ON THE INVESTMENTS IN THE IRA IS MODEST.



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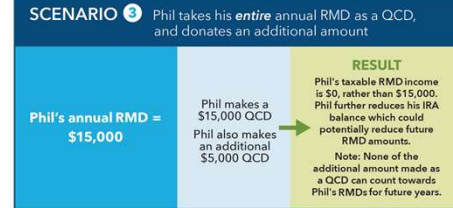
Effective giving #3 Qualified charitable distributions "QCD"



Note: No charitable deduction

1) Tax saving 24% bracket **saved** \$2,400, 2) **saved** \$3,600

Effective giving #3 Qualified charitable distributions "QCD"

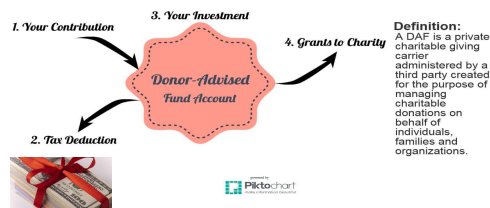


Note: No charitable deduction in this case but if Phil used appreciated assets or cash he would receive additional \$5,000 deduction but he must itemize to get the government bonus for being charitable. If he does not itemize this is still a tax smart approach.

Effective giving #4 Donor advised funds "DAF"

Donor-Advised Fund

How it Works



Effective giving #4 Donor advised funds "DAF"


- Give cash now
- Maximize charitable deduction in year of your gift
- Gift appreciated assets to save capital gains taxes
- Gift complex assets
- Front load gifts in high tax years
- Grow your fund tax-free & determine investments
- Time future gifts for maximum charitable impact
 - No "quid pro quo" benefits
- Can make gifts anonymously
- Less expensive alternative to creating a private foundation


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Three categories of gifts


- **Outright gifts** – irrevocable gifts of entire interest made today (cash or assets)
- **Expectancies** – revocable gifts committed for the future use (bequests & beneficiary designations)
- **Split-interest gifts** – irrevocable gift arrangements which give a portion to charity and a portion to a non-charitable beneficiary






YOUR GIFT	YOUR GOAL	HOW IT WORKS	YOUR BENEFITS
Bequest	<ul style="list-style-type: none"> • Maintain control of your assets during life • Make a gift to charity at your death 	You designate our organization as the beneficiary of your asset by will, trust or other instrument.	<ul style="list-style-type: none"> • Estate tax charitable deduction • Life use and ownership of your property
Charitable Gift Annuity (CGA)	<ul style="list-style-type: none"> • Receive fixed income for life • Avoid capital gains tax on the sale of your appreciated property • Enjoy the benefit of tax savings from a charitable deduction 	You transfer your cash or appreciated property to our organization in exchange for our promise to pay you fixed income (with rates based on your age) for the rest of your life.	<ul style="list-style-type: none"> • Charitable tax deduction • Fixed income for life • Partial bypass of capital gain • Possible tax-free payments
Charitable Remainder Trust (CRT)	<ul style="list-style-type: none"> • Transfer your appreciated property without paying capital gains tax • Enjoy regular income for life or a term of years • Receive the benefit of tax savings from a charitable deduction 	You transfer your cash or appreciated property to fund a charitable trust. The trust sells your property tax-free and provides you with income for life or a term of years.	<ul style="list-style-type: none"> • Charitable tax deduction • Income for life or a term of years • Possible income growth over time • Avoidance of capital gains tax
Charitable Lead Trust (CLT)	<ul style="list-style-type: none"> • Give cash or property to your family in the future • Avoid substantial gift or estate tax 	You transfer your cash or property to fund a lead trust that makes a gift to us for a number of years. You receive a charitable deduction for the gift. Your family receives the remainder at substantial tax savings.	<ul style="list-style-type: none"> • Gift or estate tax deduction • Asset and appreciation passes to family at a reduced cost
Life Estate Reserved	<ul style="list-style-type: none"> • Remain in your home for life • Receive a charitable income tax deduction 	You give your property to our organization but retain the right to use the property during your life.	<ul style="list-style-type: none"> • Charitable tax deduction • Lifetime use of property
Bargain Sale	<ul style="list-style-type: none"> • Transfer your property and receive cash or debt relief without paying substantial taxes 	We purchase your property for less than fair market value. You receive the cash and a charitable deduction for the difference between the market value and purchase price.	<ul style="list-style-type: none"> • Cash from sale • Charitable tax deduction • Partial bypass of capital gain

Give and Receive Major giving tools



- Life income gifts
 - Provide fixed or variable life income
 - Partial income tax deduction
 - Avoid/Reduce capital gains taxes in whole or in part
- Most popular life income programs
 - Charitable gift annuity,
 - normally \$10,000+ minimum
 - Charitable remainder unitrust
 - Normally \$100,000+

Gift annuities have S.T.Y.L.E.



S is for safety

T is for tax savings

Y is for after tax yield

L is for lifetime

E is for estate planning advantages

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Benefits of gift annuity

- Simple to understand
- Simple to arrange
- Modest gift amount
- Multiple contracts
- Guaranteed payment
- Lifetime payment
- Modest stock market performance
- Start with cash, stocks, bonds or real estate
- Competitive after tax return
- Satisfaction of making a future gift
- Keep lifetime use of assets
- No estate tax

AARP

Types of gift assets

- Cash
- Securities
- Bonds - Corporate
- Bonds - Municipal
- *Bonds - US Savings*
- Real Estate
 - residence
 - vacation home
 - investment property
- Mutual Funds
- Life Insurance
- Variable Annuity
- Personal Property
- Business Interests
 - S - corp
 - C - corp
- *Retirement Assets*
 - *IRA*
 - *Keogh*
 - *Pension & Profit Sharing plans*
 - *401k, 403b plans*

Gift annuity payment rates

Single Life

Age of Donor	Payment Rate
60	4.70%
65	5.10%
70	5.60%
75	6.20%
80	7.30%

Two Life

Age of Donors	Payment Rate
60/60	4.20%
65/65	4.50%
70/70	5.00%
75/75	5.50%
80/80	6.20%

ACGA rates as of July 1, 2018

Effective giving #5

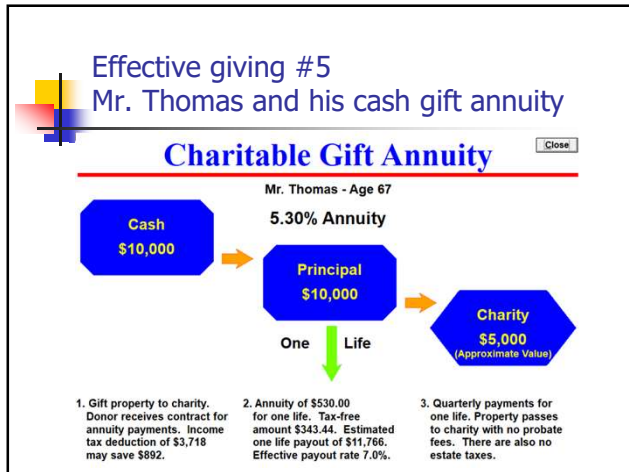
Mr. Thomas and his cash gift annuity



- Mr. Thomas
- Recent widow
- Age 67
- Looking to retire soon
- Well diversified investment portfolio
- Several laddered certificates of deposit
- Looking for more income in retirement
- A consistent donor

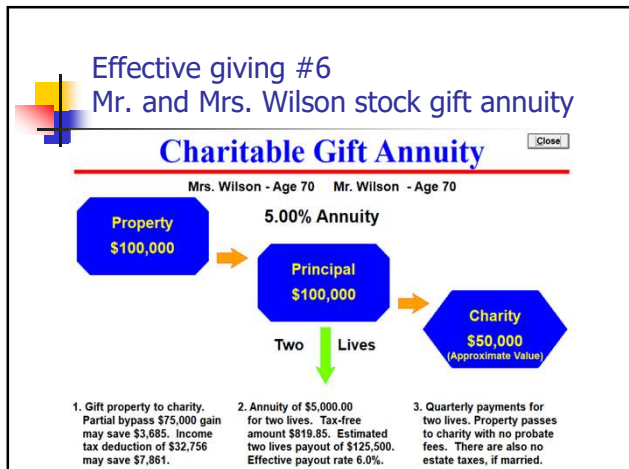
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Effective giving #6
Mr. and Mrs. Wilson stock gift annuity

- Both age 70
- Both receiving social security
- Mr. Wilson has fixed pension from employer
- Mrs. Wilson retired school teacher
- Will tap their IRA account at age 70½
- Both active supporters
- Concerned about financial future
- Large Apple stock investment



Effective giving #6
Gift annuity income enhancement- Stock

Prior to Gift		After the Gift	
Invested in stock	\$100,000	Contributed	\$100,000
Dividends (2%)	2,000	Cost basis	\$25,000
Tax (15%)	\$300	Payment rate	5.00%
Net spendable	\$1,700	Total payment	\$5,000
		Ordinary income	\$1,720
		Capital gains	\$2,460
		Tax-free*	\$ 820
		Tax OI 24%	-\$412
		Tax CG 15%	-\$369
		Net spendable	\$4,219
		Bonus savings	\$7,861
			*tax-free to 2037

Capital if Sold	
Fair market value	\$100,000
Cost basis	25,000
Capital gains tax (15%)	\$11,250
Net capital	\$88,750

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Effective giving #7 Gift plus gift annuity - Stock



- Substitute gift annuity income for stock dividend
- Make a major gift without significant reduction in retirement lifestyle
 - Couple both age 75
 - Asset – Johnson & Johnson stock, 1,666 shares @\$120
 - Fair market value \$200,000
 - Dividend rate 2.72%, annual payment \$4,531 pre-tax and \$3,851 after taxes
 - Donors wish to make a major gift of \$100,000
- Solution:** separate stock into two parts, give half and use half for a gift annuity

Effective giving #7 Biggest dividends in the S&P 500

Company	Yield (%)	Annual dividend (\$ billions)
Apple (AAPL)	1.72	13.221
Exxon Mobil (XOM)	3.75	12.771
Microsoft (MSFT)	2.25	12.055
AT&T (T)	5.01	12.037
Verizon Communicatio	5.03	9.416
Johnson & Johnson (JN	2.72	9.117
General Electric (GE)	3.32	8.376
Chevron (CVX)	4.08	8.178
Pfizer (PFE)	3.79	7.618
JPMorgan Chase (JPM)	2.3	7.144



Effective giving #7 Gift plus gift annuity - Stock



Prior to Gift		After the Gift	
Invested in stock	\$200,000	Contributed	\$100,000
Dividends (2.72%)	\$4,533	Cost basis	\$50,000
Tax (15%)	\$680	Payment rate	5.50%
Net spendable	\$3,853	Total payment	\$5,500
Gift \$100,000		Ordinary income	\$1,700
Stock gift 833 shares value	\$100,000	Capital gains	\$1,899
Cost basis	50,000	Tax-free*	\$1,901
Capital gains tax avoided (18.8%)	\$9,400	Tax OI 24%	-\$408
Deduction	\$100,000	Tax CG 18.8%	-\$357
		Net spendable	\$4,735

Effective giving #7 Gift plus gift annuity -Stock



- Outright gift deduction**
 - \$100,000
 - \$9,400 capital gains tax savings
 - \$24,000 income tax savings
- Gift annuity deduction**
 - \$37,697
 - \$ 9,047 income tax savings
 - Effective return on gift annuity 6.9%
- Summary:**
 - Two charitable deductions
 - Outright\$100,000
 - Gift annuity...\$37,697
 - Prior income
 - Net dividend \$3,853
 - Post gift income
 - Net payment....\$4,735
 - Increase of.....\$ 882
 - Bonus tax saving
 - Outright.....\$24,000
 - Gift annuity...\$9,047
 - Total.....\$33,047

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Effective giving #8 Bill O'Brien's annuity for Sara

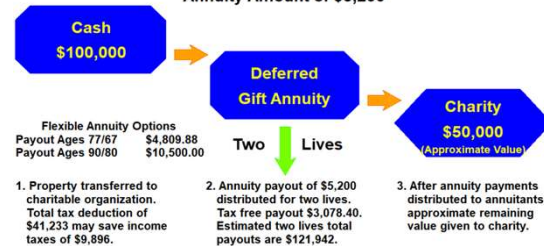


- Bill age 75 married to Sara age 65
- Bill's retirement pension will end on his death
- Bill wants to provide income for surviving spouse and could use a tax deduction this year to offset his stock gains
- Has \$100,000 cash available
- What about health changes?
- Could they/she get income earlier?

Effective giving #8 Bill O'Brien's annuity for Sara

Deferred Gift Annuity

Bill O'Brien - Age 75 Sara O'Brien - Age 65
First Payment on December 31, 2021
Annuity Amount of \$5,200



Effective giving #9 Testamentary annuity for family or friends

- Set up a gift annuity for others
- Set up in will or trust
 - Special wording required
- Income payment to beneficiary for their life
 - Each check is a friendly reminder
- Payment rate depends on beneficiary age at your death
 - Age 60 = 4.70% or rate in effect
- Remainder to favorite charity
- Estate tax charitable deduction (if needed)



Charitable strategies to increase income and decrease taxes



Thank You