



Evangelical Community Hospital
End of Year Gift Strategies

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
Phone: 910-295-6800

Copy of this presentation available at:
www.connellandassoc.com/articles.html



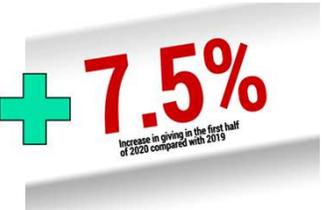
Philanthropy in USA

- Americans gave **\$449.64 billion** to charity in 2019
- US charitable giving statistics further show that **64%** of all donations come from women
- 77%** of Americans believe charity can make a difference.
- Almost **70%** of the US population donates.

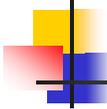


- 11%
Decline in individual giving in March

- In 2019 US giving to charity totaled nearly \$450,000,000
 - Historically **33%** takes place in December.
 - 12%** in the last 3 days of the year.

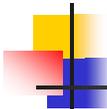


+ 7.5%
Increase in giving in the first half of 2020 compared with 2019



SECURE Act (2019)

- **Setting Every Community Up for Retirement Enhancement Act 2019**, signed Dec 20, 2019, effective January 1, 2020
- **PAST** - Stretch IRA - **WAS** a popular tool for extending benefits of a tax-deferred account to a non-spouse beneficiary
 - Child or grandchild as beneficiary
 - Beneficiary allowed to use their **RMD** to stretch payments over their lifetime
 - **SMALLER PAYMENTS = LESS TAX & MORE GROWTH**
- **NOW** – Must withdraw balance over 10 years
 - Shorter payments = more tax revenue quicker to pay for the Act



SECURE Act (2019)

- **Setting Every Community Up for Retirement Enhancement Act 2019**,
- **PAST** – Minimum age 70½ for required minimum distributions
 - **Minimum age for Qualified Charitable Distribution (QCD) still 70½**
- **NOW** – Minimum age increased to 72



CARES Act (2020)

- **New Deduction Available:** Up to **\$300 per tax return** in annual charitable contributions.
 - Only to people who take the standard deduction (for taxpayers who do not itemize their deductions).
 - It is an "above the line" adjustment to income that will reduce a donor's adjusted gross income (AGI), and thereby reduce taxable income.
 - A donation to a donor advised fund (DAF) **does not qualify** for this new deduction.
- **New Charitable Deduction Limits:** As part of the bill, individuals and corporations that itemize can deduct much greater amounts of their contributions.
 - Individuals donating cash may elect to deduct up to **100% of their 2020 AGI (up from 60% previously)**.
 - Corporations may deduct up to 25% of taxable income, up from the previous limit of 10%. The new deduction is for gifts that go to a public charity, **NO DAFs**



CARES Act (2020)

- **Required Min. Distributions Waived in 2020 for Most Donors:** Required minimum distributions (RMD) that would have had to start in 2020 do not have to start until 2021
 - Including distributions from defined benefit pension plans and 457 plans.
 - This change will dampen somewhat the incentive for a donor to make a qualified charitable distribution (QCD) from their IRA in 2020.
 - Making a **QCD** this year will still allow itemizers and non-itemizers alike to direct up to \$100,000 from their IRA to charities in a tax-efficient manner



2020 Income tax rates

| Rate | Taxable income | | |
|------|---------------------|---------------------|---------------------|
| | Unmarried | Married | Heads of Households |
| 10% | 0–\$9,875 | 0–\$19,750 | 0–\$14,100 |
| 12% | \$9,876–\$40,125 | \$19,511–\$80,250 | \$14,101–\$53,700 |
| 22% | \$40,126–\$85,525 | \$80,251–\$171,050 | \$53,701–\$85,500 |
| 24% | \$85,526–\$163,300 | \$171,051–\$326,600 | \$85,501–\$163,300 |
| 32% | \$163,301–\$207,350 | \$326,601–\$414,700 | \$163,301–\$207,350 |
| 35% | \$207,351–\$518,400 | \$414,701–\$622,050 | \$207,351–\$518,400 |
| 37% | \$518,401 + | \$622,051 + | \$518,400 + |

Married filing separately pay at same rate as unmarried. Source: IRS

Know your standard deduction by filing status - 2020

| | Single | Joint | Head of household | Married filing separately |
|----------------------------|----------|------------------------------|-------------------|---------------------------|
| Basic | \$12,400 | \$24,800 | \$18,650 | \$12,400 |
| Over 65 | \$14,050 | \$26,100 (1) \$27,400 (2) | \$20,300 | \$13,700 |
| Blind | \$14,050 | \$26,100 (1) \$27,400 (2) | \$20,300 | \$13,700 |
| Over 65 & blind | \$15,700 | \$27,400 (1) \$30,000 (2) | \$21,950 | \$15,000 |

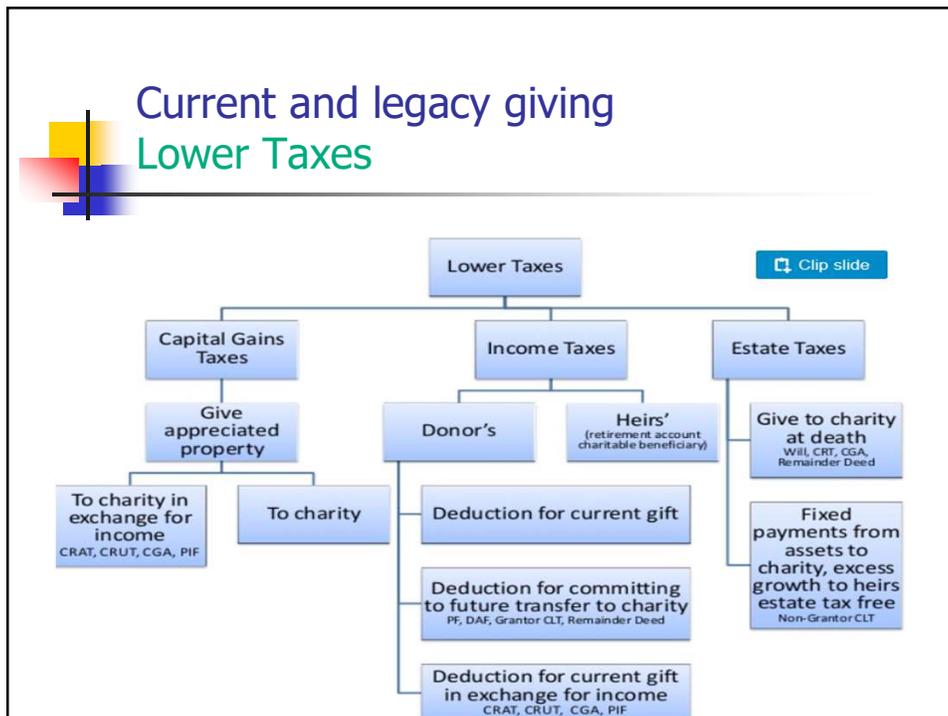
2021 – Basic \$12,550...Joint \$25,100... 65+(1) \$26,400... (2) \$27,700

Three kinds of gifts

| | | |
|---|---|---|
| <div style="background-color: #00b050; color: white; padding: 5px; text-align: center; font-weight: bold; margin-bottom: 10px;">OUTRIGHT GIFTS</div> <ul style="list-style-type: none"> • Immediate gifts • QCDs • Bargain sale • Installment bargain sale • Retained life estate • Donor advised funds | <div style="background-color: #00b050; color: white; padding: 5px; text-align: center; font-weight: bold; margin-bottom: 10px;">ESTATE GIFTS</div> <ul style="list-style-type: none"> • Will or Trust bequest • Beneficiary designations • Life insurance • Retirement plans • POD or TOD • Testamentary pledge | <div style="background-color: #00b050; color: white; padding: 5px; text-align: center; font-weight: bold; margin-bottom: 10px;">LIFE INCOME GIFTS</div> <ul style="list-style-type: none"> • Gift annuity • Charitable trusts • Pooled income fund |
|---|---|---|







2020 Capital gains rates

- 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%
- Top bracket taxpayers could pay **40.8%** cap gains tax




Fewer individuals itemize

2018 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

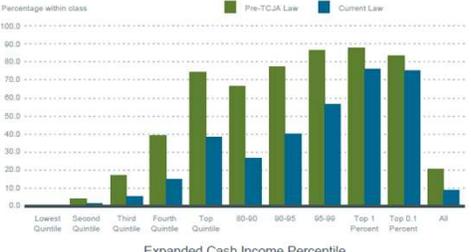
37M → 16M

Households itemizing deductions

17% → 5.5%

Middle-income households claiming a charitable deduction

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



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 2017-1).

What qualifies as a deduction?

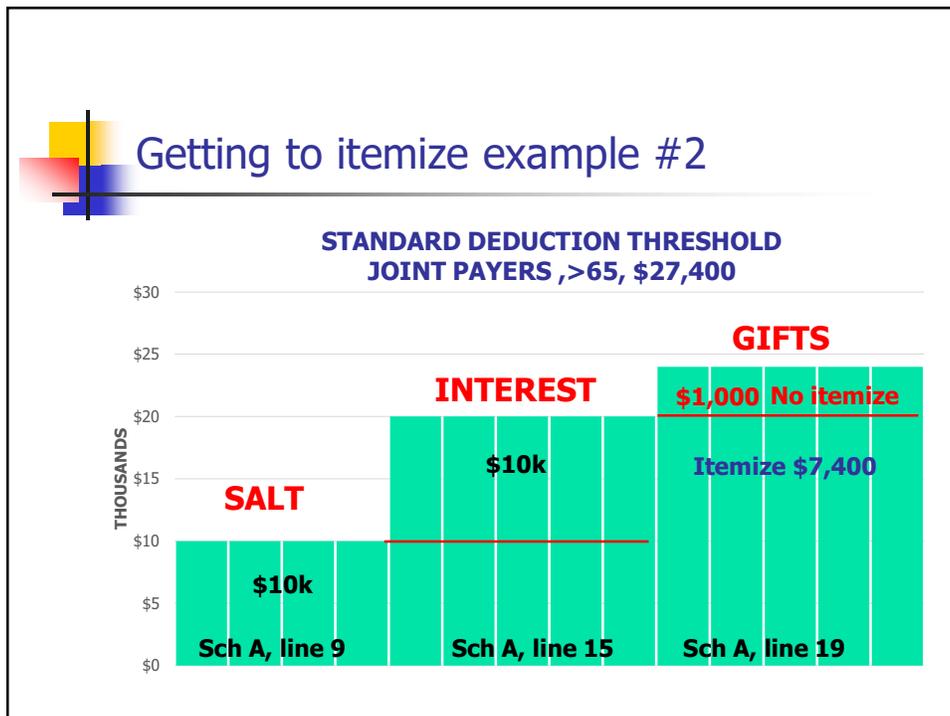
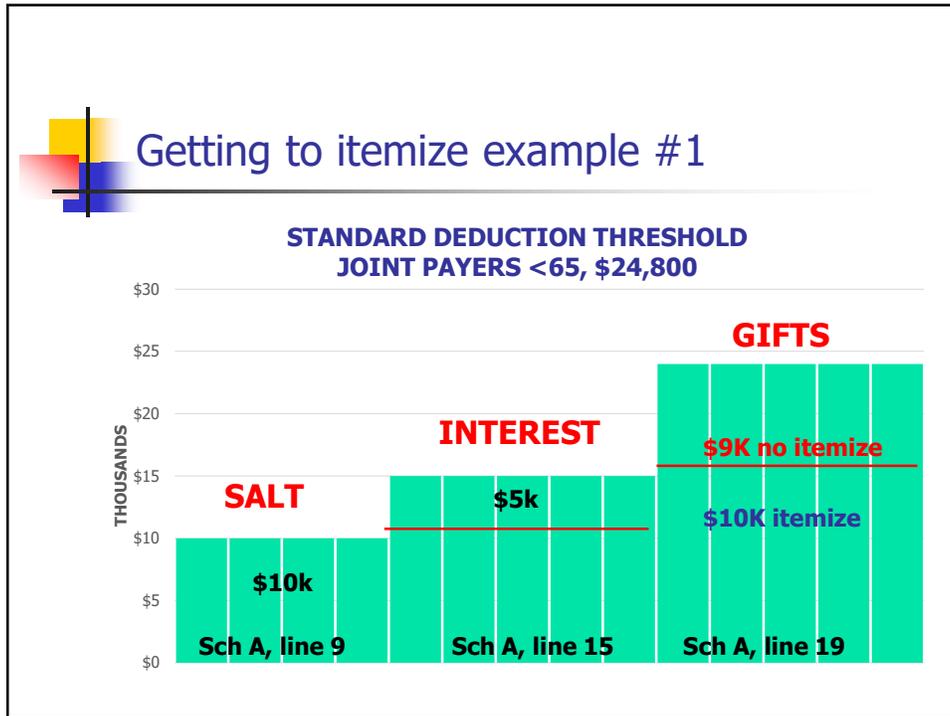
- Itemized deductions include:
 - State and local taxes: \$10,000 limit
 - Mortgage interest: \$750,000 mortgage limit,
 - no home equity interest deduction unless used to improve home
 - Medical expenses: exceed 7.5% of AGI
 - Charitable gifts: cash up to 100% of AGI (2020 only)
 - Appreciated stock 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 \$27,400 to itemize and receive an additional tax benefit.
 - Under the threshold charitable gifts have no tax impact
- **Example 2:** A single filer age 60 would have to have deductions over the threshold of \$12,400 to itemize and receive an additional tax benefit.
 - Under the threshold charitable gifts have no tax impact

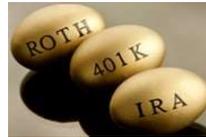




Effective giving

- 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

Gifts of Appreciated Stock (or Other Assets)

- **Goal:** Avoid capital gains tax on securities sale
- **Benefit:** No capital gains tax & charitable deduction
 - Based on fair market value,
 - Mean value of Hi & Low on date of gift

| 100 shares Apple stock, cost \$60,000, FMV \$120,000 | | | | | |
|--|-----------|-----------|-------------|-------------------------|---------------|
| 1. Donor sells shares and reinvest proceeds | | | | | |
| Cost | Value | Profit | Taxes (15%) | Net | |
| \$60,000 | \$120,000 | \$60,000 | \$9,000 | \$111,000 | |
| 2. Donor gifts share to charity | | | | | |
| Cost | Value | Deduction | Taxes paid | Taxes saved (15% & 24%) | Gift Net Cost |
| \$60,000 | \$120,000 | \$120,000 | \$0 | \$37,000 | \$83,000 |



10 ways to give smarter at end of 2020

1. Deduct \$300 without itemizing
 - This year only, courtesy of CARES Act
 - One limit per filing unit. **NO** \$600 for married folks
 - Must be a cash gift **ONLY**
2. Deduct up to 100% of your income
 - This year only, courtesy of CARES Act
 - Cash gifts only
 - 100% of Adjusted Gross Income
 - **No** Donor Advised Funds (DAF)



10 ways to give smarter at end of 2020

3. Combine a Roth conversion with a donation
 - Move money from standard IRA into a Roth IRA
 - Donation will offset taxable distribution in whole or in part
 - Distributions are tax-free after 5 years
4. Make IRA gifts @ age 70½
 - IRA accounts have no required minimum distributions (RMD) in 2020
 - Gift up to \$100,000 allowed, couples \$200,000
 - Must be 70½ on date of gift
 - Custodian to charity transfer required, pre-taxed dollars
 - IRA checkbook simplest way to make gift
 - No deduction, No benefits





10 ways to give smarter at end of 2020

5. Move 401k/403b into IRA rollover **NOW** to prepare for future IRA gifts

- RMDs will return next year for those age 72+
- Qualified Charitable Distribution reduces account tax-free charity gifts
- Normally must take RMD before conversion, no RMDs in 2020
- Convert without taxes even if you are 72+

6. IRA gifts @ age 59½ – 70½

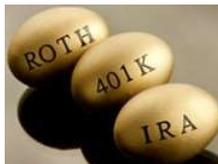
- IRA withdrawals during this age create no penalties
- Withdrawal is fully taxable for PA residents
- Cash gift may be deducted up to 100% of AGI in 2020
- Donor must itemize to get the donation as offset to taxable income



10 ways to give smarter at end of 2020

7. IRA beneficiary vs gift in a will

- Use these accounts first if you plan to give to charity
- Changing an IRA beneficiary (in whole or part) is a no cost tax smart method
- Heirs pay income taxes on distributions within 10 years of inheriting
- Part left to charity is never taxed
- If heirs need income consider a Testamentary Charitable Gift Annuity (TCGA) or a Flexible Deferred Charitable Gift Annuity (FDCGA) or CRT



Testamentary CGA & FDCGA example

- Mary age 80 dies with \$1,000,000 IRA
- Beneficiary 1 -- 50% to son age 50, **LE 38.9 yr**
 - 10 year withdrawal rule
- Beneficiary 2 -- 50% to Evangelical for CGA – Immediate payment CGA rate is **3.22%** in order to qualify for 10% charitable deduction using .04 AFR
 - Annual payment is \$16,100 for life
 - All payments taxed as ordinary income
- Beneficiary 2a -- 50% to Evangelical for FDCGA –Deferred payment
 - First optional payment could be made at age 60 for **4.35%**
 - Second optional payment could be made at age 70 for **7.89%**
 - Final optional payment must be made at age 80 at **14.6%**
 - All rates adjusted to qualify for 10% charitable deduction
 - All payments taxes as ordinary income

10 ways to give smarter at end of 2020

8. Make a charitable stock swap: Give appreciated investments **WITHOUT** changing your portfolio

- Giving appreciated assets creates **TWO** tax benefits
- Tax deduction is same size as cash gift, fair market value
- Avoid capital gains tax
- Use cash to repurchase same or other shares

The diagram illustrates the process of a charitable stock swap. It starts with a 'DONOR' (represented by a gift icon) who makes a 'Gift of securities' (1) to 'Charity'. This results in a 'Tax deduction' (2) for the donor. Simultaneously, the 'Charity' sells the securities on the 'STOCK MARKET' (3), which results in 'No capital gains tax' for the charity. Finally, the donor uses the cash from the sale to repurchase the same or other shares, as indicated by the stack of money icon.

10 ways to give smarter at end of 2020

1 Gift of securities

2 Tax deduction

3 We sell securities
No capital gains tax

Charity

Example: Sara has accumulated 1,000 shares of Apple stock over the last 5 years. Her 1,000 shares are currently valued at approximately \$110,000 or \$110/sh. Her cost basis on the 10 shares of Apple she is gifting is \$30/share or \$300. She gets a deduction of \$1,100 and avoids any tax on the \$800 capital gains. Repurchased shares have new cost basis.

10 ways to give smarter at end of 2020

9. Take an immediate deduction for donating inheritance rights to homes or farmland

- Instead of including a charitable gift in your will donate inheritance right instead.
- Special deed transfer creates an immediate income tax deduction
- With low interest rates deduction will be high
- You get to keep the land and/or live in the home for the rest of your life

Example: An 65 year old donor deeds inheritance rights to a \$200,000 home before the end of 2020. Immediate deduction of \$182,803 (91%), saves \$43,873 in taxes (24%)

10 ways to give smarter at end of 2020

10. Bunch gifts with a donor advised fund

- To take advantage of the higher standard deductions created by the 2018 tax law fewer people are itemizing
- One way around this issues is to bunch deduction in different tax years
- Know your standard deduction level first
- Gifts of stock and or cash count toward total needed
- Start or continue to make gifts to a Donor Advised Fund (**DAF**) to reach any unmet level needed to itemize deductions



\$740 Million
Dollars transferred from foundations to DAFs in 2018

\$737 Million
Dollars transferred from 2014 to 2016

Effective giving Bunching deductions

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

Skip-year giving



| | YEAR 1 | YEAR 2 | YEAR 3 | YEAR 4 | YEAR 5 |
|--|----------|--------------------|----------|--------------------|----------|
| 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 |

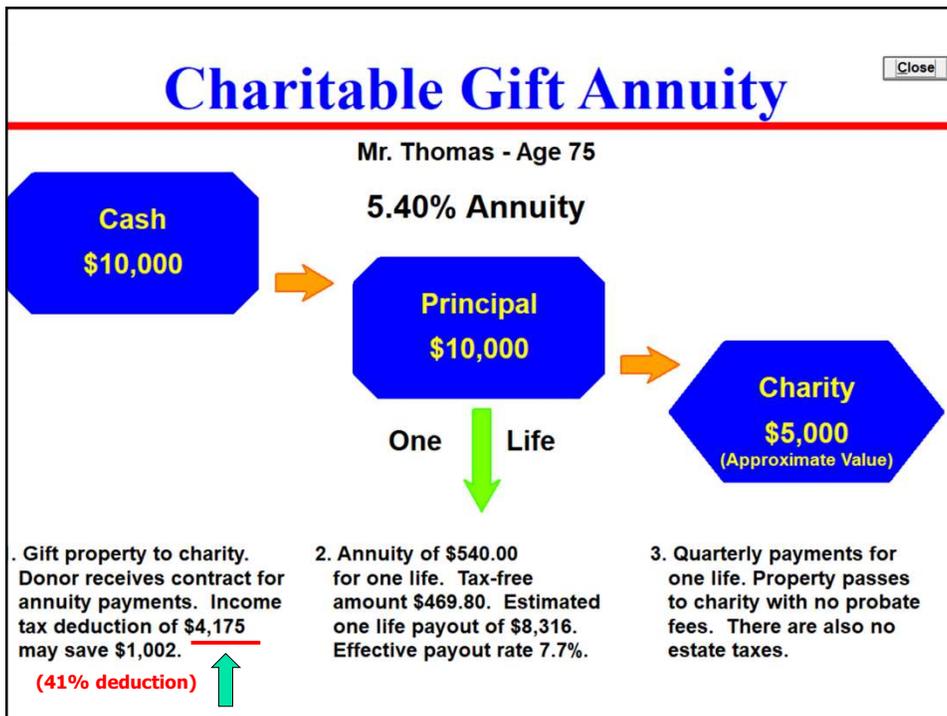


Life Income agreements

- Charitable Gift Annuities (CGA)
 - Fixed lifetime payments
 - Guaranteed by charity
 - One or two lives

- Charitable Remainder Trusts (CRT)
 - Individually designed to fit personal and financial situations
 - Life or term of years
 - Variable payments
 - Dependent on investment experience
 - Fixed payments –difficult to qualify with current low interest rates

- Pooled life income funds (PLIF)
 - Mutual fund for charitable giving, interest and dividend payments only



Deferred Gift Annuity Close

John Marsh - Age 55
First Payment on December 31, 2035
Annuity Amount of \$1,750
Stock funded, \$10,000 basis

Property
\$25,000

➔

**Deferred
Gift Annuity**

➔

Charity
\$25,000
(Approximate Value)

Flexible Annuity Options

| | | | | | |
|------------------|------------|---------|------------|-------------|--|
| Payout At Age 65 | \$1,262.48 | (5.0%) | One | Life | |
| Payout At Age 80 | \$3,200.00 | (12.8%) | | | |

1. Property to charity. Partial bypass of gain of \$15,000. Total tax deduction of \$6,409 may save income taxes of \$1,538. **(25% deduction)**

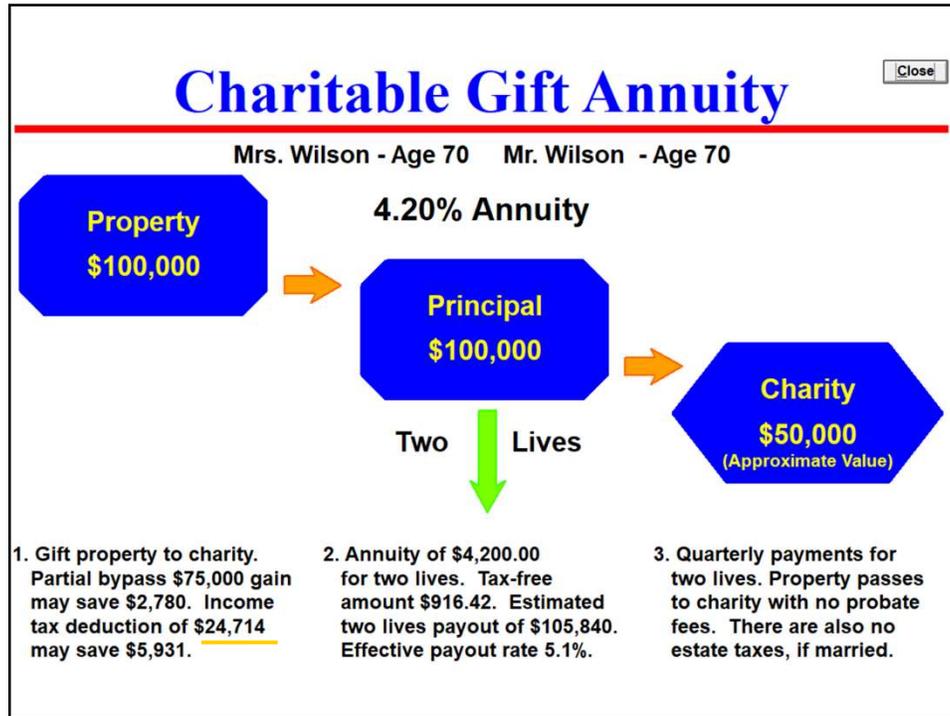
2. Annuity payout of \$1,750 distributed for one life. Tax free payout \$467.44. Estimated one life total payouts are \$32,630.

3. After annuity payments distributed to annuitant, approximate remaining value given to charity.

Effective giving

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 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 | 4.20% |
| Net spendable | \$1,700 | Total payment | \$4,200 |
| | | Ordinary income | 529 |
| Capital if Sold | | Capital gains | 2,754 |
| Fair market value | \$100,000 | Tax-free* | 918 |
| Cost basis | 25,000 | Tax OI 24% | -\$127 |
| Capital gains tax (15%) | \$11,250 | Tax CG 15% | -\$413 |
| Net capital | \$88,750 | Net spendable | \$3,660 |
| | | Bonus savings | \$5,931 |

*tax-free to 2040

**Effective giving
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* | 4.60% |
| Net spendable | \$3,853 | Total payment | \$4,600 |
| | | Ordinary income | \$566 |
| | | Capital gains | \$2,018 |
| | | Tax-free* | \$2,016 |
| | | Tax OI 24% | -\$157 |
| | | Tax CG 18.8% | -\$379 |
| | | Net spendable | \$4,064 |
| | | | <ul style="list-style-type: none"> • Rate for 1 life @ 69 • Rate for 2 life @ 74/75 |
| Gift \$100,000 | | | |
| Stock gift 833 shares value | \$100,000 | | |
| Cost basis | 50,000 | | |
| Capital gains tax avoided (18.8%) | \$9,400 | | |
| Deduction | \$100,000 | | |

**Effective giving
Gift plus gift annuity -Stock**



| | |
|--|---|
| <ul style="list-style-type: none"> ■ Outright gift deduction <ul style="list-style-type: none"> ■ \$100,000 ■ \$9,400 capital gains tax savings ■ \$24,000 income tax savings ■ Gift annuity deduction <ul style="list-style-type: none"> ■ \$33,811 ■ \$8,115 income tax savings ■ Effective return on gift annuity 5.80% | <ul style="list-style-type: none"> ■ Summary: <ul style="list-style-type: none"> ■ Two charitable deductions <ul style="list-style-type: none"> ■ Outright\$100,000 ■ Gift annuity...\$33,811 ■ Prior income <ul style="list-style-type: none"> ■ Net dividend \$3,853 ■ Post gift income <ul style="list-style-type: none"> ■ Net payment....\$4,064 ■ Increase of.....\$211 ■ Bonus tax saving <ul style="list-style-type: none"> ■ Outright.....\$24,000 ■ Gift annuity...\$ 8,115 ■ Total.....\$32,115 |
|--|---|

Effective giving Gift and wealth replacement insurance



Charitable planning devices such as Charitable Gift Annuities, Gifts of Remainder Interests in Homes and Farms, and Charitable Remainder Trusts produce amazing tax advantages, reducing income taxes, capital gain taxes, and estate taxes

- **Wealth replacement**
 - Purchase life insurance to replace gifted wealth
 - Remove from estate
 - Replaces wealth for heirs
- **Example: before or after making the gift establish replacement life insurance**
- Immediate outright gift of \$250,000
 - Purchase a \$250,000 policy as an alternative and supplemental source of wealth for beneficiary/heirs

Effective giving Gift and wealth replacement variable annuity



- \$100,000 Outright gift of cash or securities
- Immediate campaign impact

- **Wealth replacement**
 - Purchase \$100,000 variable annuity with Guaranteed Withdrawals Benefit for life and return of premium death benefit
 - No medical requirements
 - Donor receives age related income
 - Ages 65-74, 5.0%
 - Ages 75-80, 5.5%
 - Ages 81+, 6.0%
 - Replaces wealth with simple beneficiary designation heir(s)

Effective giving Pooled Life Income Fund

- PLIF sponsored by Eaton Vance
- US Legacy Income Trust #1, part of EV Donor Advised Fund
 - Accepts cash and/or securities, minimum \$20,000
 - Donor receives lifetime payments, may include beneficiaries
 - Payment paid monthly
 - One or more charity receives remainder amount
- September 30th annualized payment rate 6.11%, subject to change
- Sample charitable deduction chart below

| Income Beneficiary Age | One Individual | Two Individuals |
|------------------------|----------------|-----------------|
| 90 | 91.0% | 87.3% |
| 80 | 83.8% | 78.3% |
| 70 | 74.3% | 67.3% |
| 60 | 64.0% | 56.2% |
| 50 | 53.9% | 46.1% |

Strategies for end of year gifts

- In 2019 US giving to charity totaled nearly \$450,000,000
 - Historically **33%** takes place in December.
 - **12%** in the last 3 days of the year.
- **Steps to improve giving**
 - Engage family early in issues and causes that are important to them
 - Engage business stakeholders, especially employees not only in issues but volunteering and giving programs.
 - What community difference do we want to make?
 - How will giving make a family difference?
 - Go deep, not wide
 - Do your research
 - Give boldly and take risks
 - Ask for help, professionals, advisors to maximize both the joy and impact of charitable efforts



