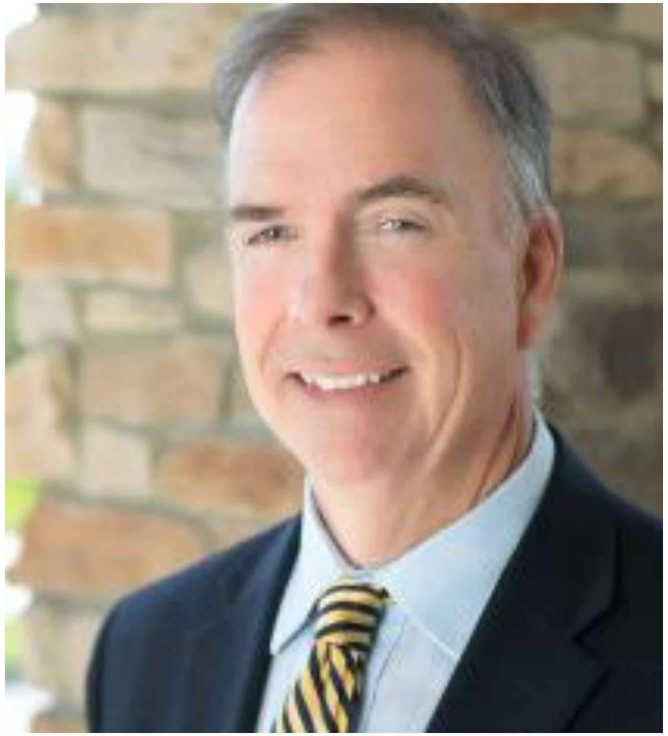
Community Foundation
Research and Training Institute

Knowledge Nugget #6: Fund Development Part II - Strategies for Tax Smart Giving

My Contact Information

David Bennett

- Cell: 260-804-5617
- Email: cfrtinstitute@gmail.com
- Website: www.cfrti.com



Smart Strategies for Charitable Gifts to Community Foundations

- New Gift Options Under the CARES Act
- Avoiding Capital Gains
- Gifts of Retirement Assets
- Qualified Charitable Distributions
- Gifts of Grain

A quick note:

This Knowledge Nugget takes a deeper dive into the tax consequences of charitable giving.

The reader is strongly encouraged to first review *Knowledge Nugget #4: Taxes, Charitable Giving and Community Foundations – The Big Picture – Part I* before reviewing this knowledge nugget.

Tax Smart Charitable Giving

In our first *Knowledge Nugget* on charitable giving, we looked at changes in the federal income and estate taxes, and pointed out that the tax savings from charitable giving have been significantly reduced.

In this *Knowledge Nugget*, we'll talk about the types of charitable gifts that can still generate tax savings, even if the donor does not itemize on their federal income tax return or incur estate taxes.

New Gift Options Under the CARES Act

CARES Act Incentives

Universal Charitable Deduction – For Those Who Do Not Itemize

- $300 per return in 2020
- $300 single/$600 joint in 2021

Higher Adjusted Gross Income Limitations in 2020 and 2021

- Gifts of Cash – Limitation is 100% of AGI

Neither Can Be Used for Gifts to Donor Advised Funds

Avoiding Capital Gains

Avoiding Capital Gains

Even if a donor does not itemize charitable gifts on their tax return, giving appreciated securities is still a smart way to make a charitable gift.

If a donor gives a security for which the market value exceeds their cost, they get two benefits

1. They can deduct the market value of the gift
2. They do not need to pay taxes on the capital gain

For donors who do not itemize and cannot take advantage of #1, **they can still avoid paying taxes on the capital gain (item #2)**

Sell Marketable Security

Sell

Basis = $4,000
Market Value = $10,000

Receive $10,000, pay tax on
$6,000 gain

Give Marketable Security – Can Itemize

Give

Basis = $4,000
Market Value = $10,000

Receive $10,000 charitable deduction, avoid capital gains tax

Give Marketable Security – Cannot Itemize

Give

Basis = $4,000
Market Value = $10,000

Avoid capital gains tax

Appreciated Security/Capital Gain

Marginal tax rate 24%/Cap Gain rate 15%

	Give and Itemize	Give Don't Itemize	Sell Security Don't Itemize
Value of Stock	$10,000	$10,000	$10,000
Basis	$4,000	$4,000	$4,000
Gain on Sale	- 0 -	- 0 -	$6,000
Charitable Gift	$10,000	$10,000	$6,000
Deduction	$10,000	- 0 -	- 0 -
Itemize Tax Savings (24%)	$2,400	- 0 -	- 0 -
Tax on Gain (15%)	- 0 -	- 0 -	$900
Net Tax Change	-$2,400	- 0 -	+$900

But What If You Still Want To Own the Stock?

Buy it back the same day!

- No “Wash Sale” Limitations on Stock Disposed Of by Gift

Your tax basis is now higher

Gifts of Retirement Assets

Gifting Retirement Assets

Retirement assets may be subject to taxation, even if a donor is not subject to federal estate taxes.

That's because most retirement assets are considered to be "tax heavy" assets – they were never taxed during the lifetime of the donor. Upon the death of the donor, then, the recipient of those assets may need to pay taxes on the assets they receive.

This is not true, however, for retirement assets given to a charity such as a community foundation.

As the next few slides will show, retirement assets still require thoughtful planning.

Three Stages of Retirement Assets

Early Distribution (Less than age 59 ½)

Regular Distribution (Age 59 ½ to 70 ½)

Required Minimum Distribution (above Age 70 ½)

Gifts of Retirement Assets Before Age 59 1/2

It's almost never a good idea to make a charitable gift using retirement assets before age 59 ½

First, any amount withdrawn counts as income

- Could mean higher marginal rate, loss of some other tax credits

Second, there will be a10% penalty

Third, while you might be able to take a deduction if you itemize, most taxpayers no longer itemize

Gifts of Retirement Assets Age 59 ½ to 70 1/2

If you are between ages 59 ½ and 70 ½, there are circumstances where a gift of retirement assets might make sense.

Any amount gifted will be counted as taxable income

If you itemize, you may get deduction

- Likely, you will receive no deduction because most taxpayers don't itemize

Gifts of Retirement Assets After Age 70 1/2

Any amount removed will be counted as income

- Unless you do a Qualified Charitable Distribution

May or may not get deduction

Required Minimum Distribution Rules Apply

- 50% Penalty on shortfall below RMD
- RMD rules are suspended for 2020

Required Minimum Distribution Rules

Must distribute:

Account Balance divided by Life Expectancy Factor

Example, Widow, Age 73

- Life Expectancy = 11 years

Using the IRS payout factor:

$1,000,000/24.7 = $40,485

Retirement Assets Left to Heirs

(Other than Spouse)

Upon the death of a taxpayer, retirement assets can be willed to someone else

Retirement Assets are sometimes referred to as “tax heavy assets” as they have never been taxed. Therefore, the recipient of those assets may be subject to

- Income Taxes
- Estate Taxes

Subject to tax based on income of recipient

Gifting Retirement Assets In Your Will

For some donors, gifting retirement assets in your will makes sense

There is an unlimited charitable deduction for gifts of retirement assets in an estate plan. Giving retirement assets to a community foundation could lead to significant reductions in federal and state income taxes, as well as estate taxes.

As with any planned giving strategy, this option should be carefully reviewed by your professional advisor.

Qualified Charitable Distributions

What is a QCD?

A QCD is a **direct transfer** of funds from your IRA custodian, payable to **a qualified charity**. QCDs can be counted toward **satisfying your required minimum distributions** (RMDs) for the year, as long as certain rules are met.

Qualified Charitable Distribution

- Amount removed **not counted as income**
  - No deduction for charitable contribution
  - $100,000 Limit
- Only IRA or IRA rollover (not 401-k, 403b, SEP, SIMPLE or pension)
  - Cannot give to **donor advised fund** or private foundation
  - Cannot use to fund **income producing** vehicle (CGA, CLT or CRT)

Importance of a QCD

$50,000 from an IRA

	Non-QCD	QCD
Taxable Income	$50,000	- 0 -
Charitable Deduction - Nonitemizer	- 0 -	- 0 -
Charitable Deduction – Itemizer	$50,000?	- 0 -
Income Limits on Charitable Deduction	Yes	No
Tax Effect	Zero – at best (likely more)	None

Using a “Spend-Down Designated Fund” to Receive a QCD Distribution

Donor Advised Fund Cannot Receive QCD

Donor creates Spend-Down Designated Fund

- Charities Named in Advance
- No Advisory Rights

Distribution Goes To Spend-Down Designated Fund

SECURE Act

Setting Every Community Up for Retirement Enhancement

Age for Required Minimum Distributions rises from 70 ½ to 72

- With CARES Act, RMD is suspended for 2020

Inherited IRA, owner must withdraw the entire IRA balance within 10 years of the death of the IRA's owner

- Exceptions
  - Spouse
  - Children under age of majority
    - 10-year rule applies when they reach age of majority
- A disabled beneficiary or chronically-ill beneficiary, or
- A beneficiary within 10 years of age of the decedent

Stretch IRA Example

Before SECURE Act

- Assume 25-year-old inherits $1,000,000 IRA
- Life Expectancy = 57.2 Years
- Required Minimum Withdrawal =

$1,000,000/57.2 = $17,482

(Note: Investment earnings may exceed payout in early years)

SECURE Act

Assume same 25-year-old

IRA must be withdrawn within 10 years

Investment earnings limited to 10 years

Gifts of Grain

Why Make a Gift of Grain?

Farmers have available an option that allows them to reduce their taxable income. This option is available whether or not the farmer itemizes on their tax return.

Farmers are allowed to give away grain before taking into taxable income. For example, if a farmer delivers $200,000 worth of grain to a local elevator, they can give a portion of that to a charity and not count it as income.

In the example above, suppose the farmer has that $200,000 in grain at the elevator. They could give $20,000 to the community foundation. The farmer then recognizes only $180,000 in income.

The community foundation sells the grain and receives the cash.

Gifts of Grain – How to do it

1. Deliver grain to preferred local elevator or market
2. Determine how many bushels you would like to donate
3. Transfer the ownership of that grain to the Community Foundation
4. Send a Gift of Grain Notification Form to the Community Foundation
5. Request a grain storage receipt showing the Community Foundation as the owner. The elevator should refrain from selling the grain or issuing a check to the foundation without specific instructions from the Community Foundation.
6. Notify the Community Foundation when the transfer is made, indicating where the grain is being stored. The Community Foundation receives warehouse receipt and pays any subsequent ownership costs such as storage, etc.
7. The Community Foundation will then order the sale of the grain.
8. The Community Foundation will acknowledge your gift following the sale.

Benefits of Gift of Grain

Donated grain proceeds not included in income

Cost of growing the crops is still deductible

Gift of grain not counted as income on the government payments limitation caps calculation

My Contact Information

That’s it for this Knowledge Nugget. If you want to test what you learned, there’s a short quiz located elsewhere on this website.

If you have any questions or comments, please contact me using this information

David Bennett

- Cell: 260-804-5617
- Email: cfrtinstitute@gmail.com
- Website: www.cfrti.com

Keep up the good work … what you are doing for your community is so important.