



WEALTH

Advanced Charitable Planning Strategies



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Today's Presentation



- Qualified Charitable Deduction
- Charitable Grouping
- Charitable Trusts
- Pooled Income Fund
- Donor Advised Funds
- Q&A

Charitable Planning in 2020

- **The Tax Cuts and Jobs Act of 2017**

- Standard deduction is higher
- Clumping donations is suggested for many
- Estate tax exemption increased substantially to \$11.4 million in 2019

- **Protecting Americans from Tax Hikes (PATH) Act of 2015**

- Made permanent direct rollovers to charity
 - Must be over 70.5
 - Limited to \$100,000 per year

- **SECURE Act- 12/20/2019**

- **Setting Every Community Up for Retirement Enhancement Act of 2019**
- **Client approved piece available – Affects RMD's, Stretch IRA's, IRA Age contributions**
- **529 Plan options>Student Loan Repayments**

- **New Pooled Income Fund**

- Attractive discount rate of 2.2% in 2020

Important Considerations

- For people already with charitable intent
- Preference to give now or have a bequest after death
- Balanced with the tax benefits of a charitable gift

Qualified Charitable Distributions (QCDs)

- IRA owner must be older than 70.5
 - Actually older
 - Not turning 70.5 sometime that year

- The distribution must go directly to the charity
 - Account owner cannot take possession
 - Can't go to a Donor Advised Fund (DAF)

- Maximum dollar amount of \$100,000

QCD Example*



	Current	Charitable Deduction	QCD
Investment income	\$44,681.00	\$44,681.00	\$44,681.00
Taxable Social Security	\$40,800.00	\$40,800.00	\$26,979.00
RMD	\$56,604.00	\$56,604.00	\$0.00
AGI	\$142,085.00	\$142,085.00	\$71,660.00
Gift to charity	\$0.00	\$56,604.00	\$56,604.00
Standard Deduction	\$27,400.00		\$27,400.00
Taxable Income	\$114,685.00	\$85,481.00	\$44,260.00
Total Tax	\$15,528.00	\$8,660.00	\$3,009.00
		\$6,868.00	\$12,519.00
			\$5,651.00

*71 year old couple, married filing jointly, \$1.5 million in Non-qualified assets, \$1.5 million in qualified assets, \$4,000 in monthly social security income. *** for illustrative purposes only***

Charitable Gift Grouping

- Current standard deduction for married couple is \$27,400*
 - Standard deduction for single filers is \$13,050*
- This makes it much more difficult to deduct charitable contributions
- Group charitable contributions every other year to take advantage
- Consider a Donor Advised Fund Contribution (i.e. \$40k, \$10k per year)

**Standard deduction for those over age 65, under age 65 is \$12,400 for singles and \$24,800 for married filing jointly.*

Charitable Lead Annuity Trusts (CLAT)

Description

- Lifetime or testamentary transfer to a trust to benefit charity for a period of years or the lives of one or more beneficiaries
- Fixed dollar payout to charity set at trust inception

Suitability

- Donor with significant charitable intent
- Donor or heirs currently do not need the income from the transferred property
- Donor with significant estate and/or income tax exposure seeking tax-reduction

Advantages

- Grantor CLAT - Income tax deductions can offset other income and is equal to the value of the charitable gift
- Non-Grantor (Family) CLAT
 - Removes property from donor's estate
 - Gift/estate deductions = value of charitable gift
 - Future interest in property transferred to heirs at a significant discount to value

Disadvantages

- Transfer to CLAT is irrevocable
- CLAT is not income tax-exempt

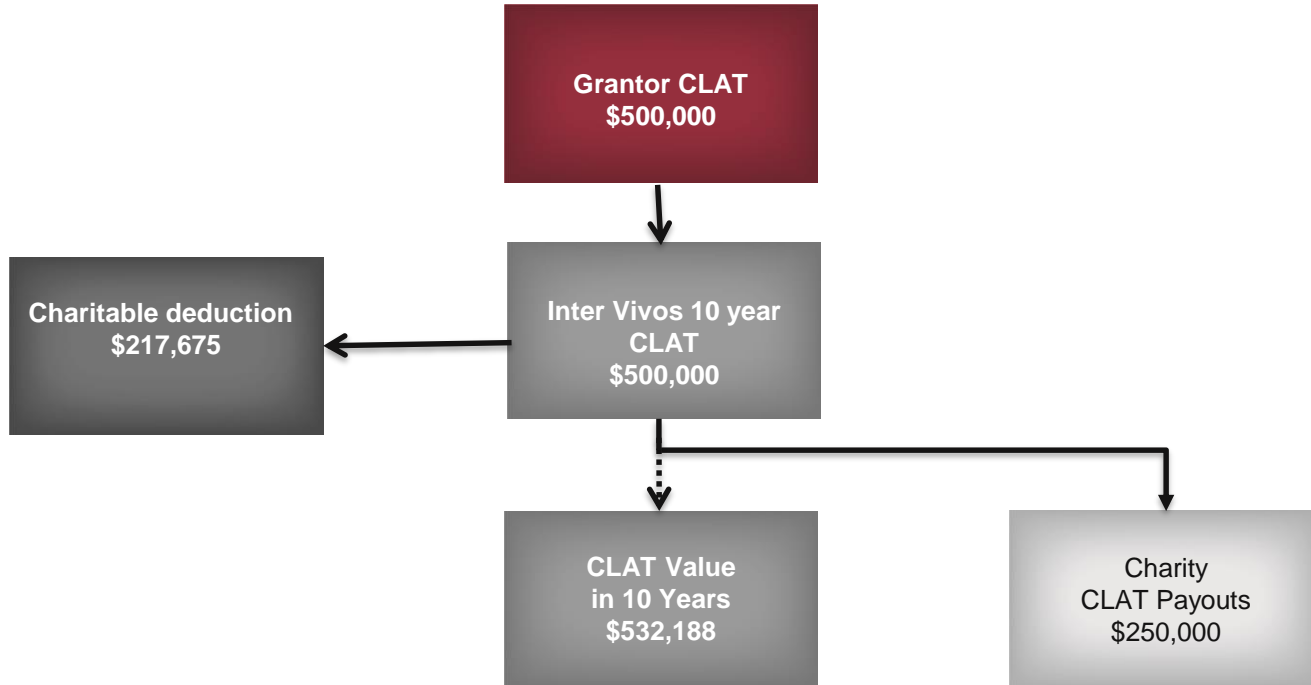
Enhancers

- Rapid appreciation during CLAT term
- Flexibility
 - Grantor CLAT for income tax planning
 - Family CLAT for estate freeze planning
- Lower § 7520 rate (can use current month or either of the two prior months) and long trust term can zero-out the future gift for transfer tax purposes
- Example – Grantor CLAT – Transfer \$500,000
 - 10-year 5.0% payout
 - 37% income tax bracket plus Medicare surtaxes
 - § 7520 rate = 2.6%
 - 5.5% return

Summary

- Tax efficient giving vehicle
- Enables donor to make significant transfer to charity in the form of a guaranteed annuity
- Trust assets can either revert to grantor or pass to heirs upon expiration of trust term
- Value of charitable lead interest is deductible for income, gift or estate tax purposes
- i.e. : 5 year CLAT, Matures in 5 years, do it again
- Significant charitable deduction in Year One
- Typically better when interest rates are low

Charitable Lead Annuity Trusts (CLAT)



Charitable Remainder Unitrusts (CRUT)

Description

- Lifetime or testamentary transfer to a trust to benefit donor or his designated beneficiaries for a period of years or the lives of one or more beneficiaries
- Payout to beneficiaries is based on a percentage of trust value on the designated valuation date
- Property remaining in trust upon expiration passes to one or more named charities

Suitability

- Donor with significant charitable intent
- Appreciated property with a desire to sell
- Testamentary CRUT can eliminate the income tax burden on assets otherwise subject to income in respect of a decedent

Advantages

- Deferral of capital gains on sale of appreciated property and diversification inside of CRUT
- Provides income stream to donor and/or his or her designated beneficiaries for a period of years and/or for life
- Income, gift and/or estate tax deduction for value of charitable gift
- Tax efficient, deferred gift to charity

Disadvantages

- Poor investment performance inside CRUT reduces income stream to non-charitable beneficiaries

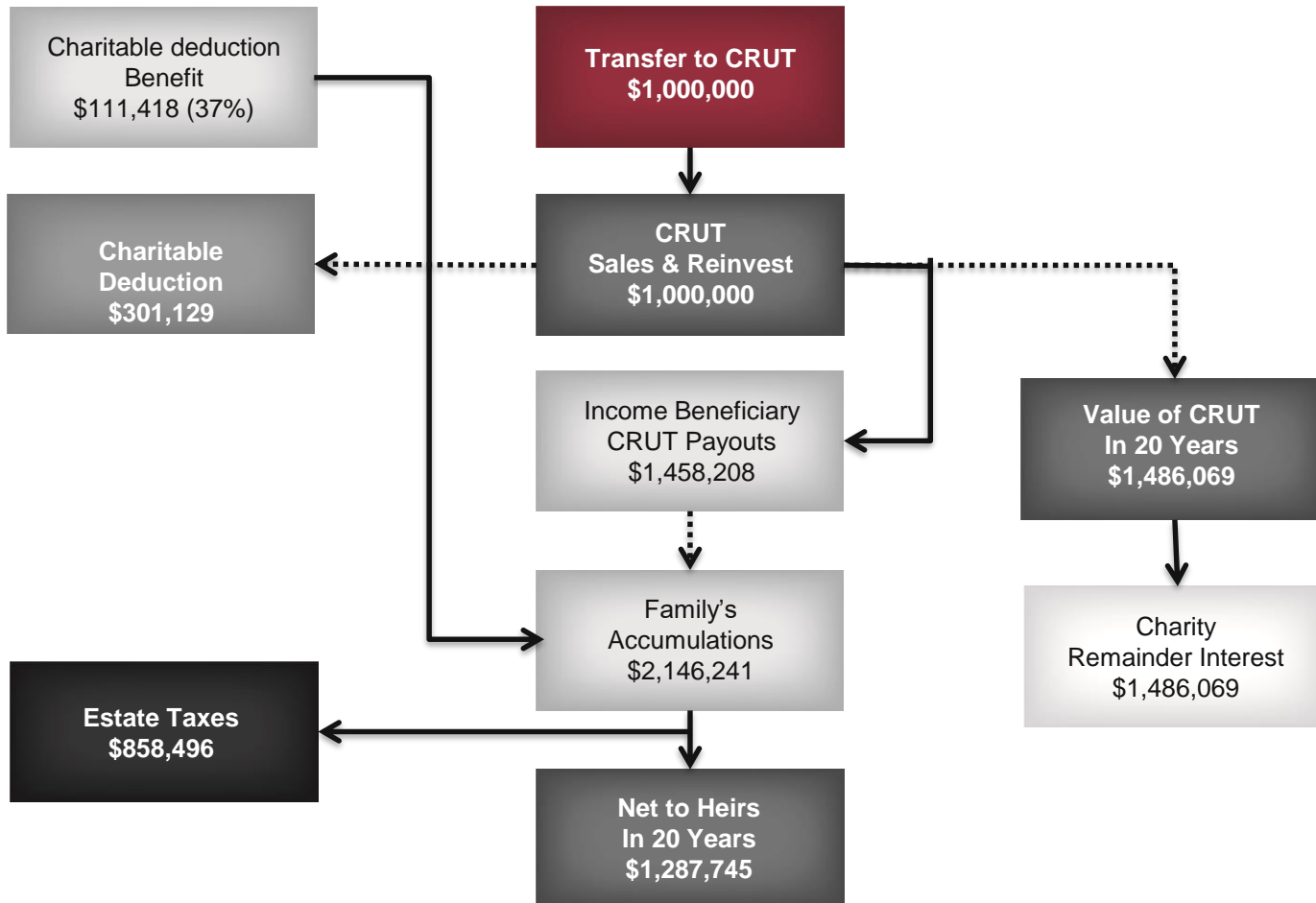
Enhancers

- Rapid appreciation during CRUT term enhances future income to non-charitable beneficiaries
- Wealth replacement trusts can allow a CRUT to enhance family capital as the life insurance replaces the lost wealth associated with the charitable transfer
- Tax savings plus an increased income from the CRUT can fund insurance premiums
- Example – \$1 million transfer with a cost basis of \$100,000
 - 20-year term
 - 6% payout
 - 8% return (2% income and 6% growth)
 - 37% income tax bracket plus Medicare surtaxes
 - 40% estate and gift tax bracket
 - Assumed § 7520 rate = 3.0%

Summary

- Tax efficient giving vehicle
- Tax-free portfolio diversification
- Conversion of non-productive property to income producing property
- Typically better when interest rates are higher

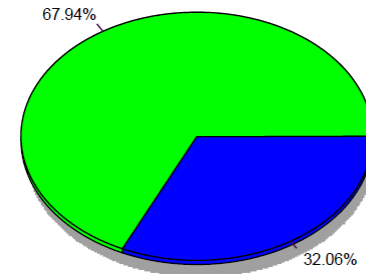
Charitable Remainder Unitrusts (CRUT)



CRUT Example

Trust Type:	Life
Transfer Date:	1/2019
§7520 Rate:	3.60%
FMV of Trust:	\$1,000,000
Growth Rate:	3.00%
Income Rate:	3.00%
Percentage Payout:	5.000%
Payment Period:	Quarterly
Months Val. Precedes Payout:	3
Lives:	2
Ages:	64, 63
CRUT Type:	Normal

Deduction as Percentage of Amount Transferred



Payout Sequence Factor:	0.978186
Adjusted Payout Rate:	4.891%
Interpolation:	
Factor at 4.8%:	0.32709
Factor at 5.0%:	0.31279
Difference:	0.01430
$(4.891\% - 4.8\%) / 0.2\% = X / 0.01430$; Therefore $X = 0.00651$	
Life Remainder Factor = Factor at 4.8% Less X:	0.32058
Present Value of Remainder Interest = \$1,000,000.00 x 0.32058:	\$320,580.00
Donor's Deduction:	\$320,580.00
Donor's Deduction as Percentage of Amount Transferred:	32.058%
Present Value of Succeeding Noncharitable Interests:	\$117,210.00

Example of Pooled Income Fund Calculation



POOLED INCOME FUND		
Donor:	Gift Amount:	Gift Date:
Joe Smith	\$1,000,000.00	02/28/2019
First Person:	Date of Birth:	Age*
Joe Smith	12/31/1954	64
Second Person:	Date of Birth:	Age*
Jane Smith	03/07/1956	63

*Age rounded to nearest birthday.

Calculation		
(A) Highest Yearly Rate of Return During Past Three Years (Reg.Sec 1.642(c)-6(c)):	6.00%	(A)
(B) Nearest table rate below(A)	5.80%	(B)
(C) Factor at Line (B) rate (IRS Pub. 1457, Table R(2))	0.28104	(C)
(D) Nearest table rate above (B)	6.00%	(D)
(E) Factor at Line (D) rate (IRS Pub. 1457, Table R(2))	0.27019	(E)
(F) Line (C) Minus Line(E)	0.01085	(F)
(G) Line (A) Minus Line(B)	0.200%	(G)
(H) Line (G) Divided by 0.2%	1.00000	(H)
(I) Line (F) Times Line (H)	0.01085	(I)
(J) Line(C) Minus Line(I)	0.27019	(J)
(K) Line (J) Times Gift Amount PRESENT VALUE OF REMAINDER INTEREST	270,190.00	(K)
(L) Line (K) Times TAX BRACKET AND SAVINGS <u>37.00%</u> PROJECTED INCOME TO FAMILY	99,970.30 \$1,552,582.18	(L)

Example of “Young” Pooled Income Fund Calculation



POOLED INCOME FUND		
Donor:	Gift Amount:	Gift Date:
Joe Smith	\$1,000,000.00	02/28/2019
First Person:	Date of Birth:	Age*
Joe Smith	12/31/1954	64
Second Person:	Date of Birth:	Age*
Jane Smith	03/07/1956	63
*Age rounded to nearest birthday.		

Calculation		
(A) Highest Yearly Rate of Return During Past Three Years (Reg.Sec 1.642(c)-6(c)):	2.20%	(A)
(B) Nearest table rate below(A)	2.00%	(B)
(C) Factor at Line (B) rate (IRS Pub. 1457, Table R(2))	0.62735	(C)
(D) Nearest table rate above (B)	2.20%	(D)
(E) Factor at Line (D) rate (IRS Pub. 1457, Table R(2))	0.59978	(E)
(F) Line (C) Minus Line(E)	0.02757	(F)
(G) Line (A) Minus Line(B)	0.200%	(G)
(H) Line (G) Divided by 0.2%	1.00000	(H)
(I) Line (F) Times Line (H)	0.02757	(I)
(J) Line(C) Minus Line(I)	0.59978	(J)
(K) Line (J) Times Gift Amount PRESENT VALUE OF REMAINDER INTEREST	599,780.00	(K)
(L) Line (K) Times TAX BRACKET AND SAVINGS <u>37.00%</u> PROJECTED INCOME TO FAMILY	221,918.60 \$1,552,582.18	(L)

From Crescendo For illustrative purposes only

Important things to remember

- Important to maximize the impact of the deductions
 - Cash contributions are limited to 60% of AGI
 - Appreciated property limited to 30% of AGI – Low basis securities
 - Deductions can be carried forward for 5 additional years

- Important to plan income to take advantage of the extra deductions you will receive.
 - Converting to Roth can increase this income to take advantage
 - Taking capital gains to help diversify your portfolio



Questions and Comments? We're here to assist any way we can

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