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YEAR-END IDEAS - OPTIMIZING CHARITABLE GIVING

There are 3 focus areas when deciding on optimizing charitable giving while maximizing tax deductions:

1. APPRECIATED INVESTMENTS
2. CASH
3. RETIREMENT PLANS

APPRECIATED INVESTMENTS

QUESTION: What charitable gift should be considered for year-end?

Gifts of Stock

Don't overlook giving appreciated stock. The stock market has reached record highs. The future economic outlook is uncertain.

- ✓ Select a highly appreciated stock.
- ✓ One held for more than a year in a taxable brokerage account.
- ✓ Donate stock shares by DTC wire transfer.

BENEFITS:

- ✓ Receive an itemized charitable tax deduction at the stock's market value.
- ✓ Limited to 30% of AGI (Adjusted Gross Income).
- ✓ Avoid the capital gains tax i.e. the tax on profits (higher incomes pay 15% to 23.8%).

OTHER FACTORS

- Do not donate stocks carried at a loss. Liquidate to take tax loss write-off.
- Ordinary income tax rates: 10%, 12%, 22%, 24%, 32%, 35% and 37%.
- 2020 Standard deduction:
Single \$12,400, Married Filing Jointly \$24,800 or Head of Household \$18,650
Add if 65+ S or HH \$1,650, if Married Filing Jointly \$1,300 x 2 = \$2,600

QUESTION: What 2020 tax changes impact charitable giving?

2020 RULE CHANGES AFFECTING GIVING

The 2017 TAX Act made it more difficult to get tax deductions for charitable giving. The doubling of the standard deduction resulted in fewer taxpayers itemizing deductions.

The CARES Act and the SECURE Act created both challenges and opportunities for taxpayers and donors.

CASH Donations

CARES Act – March 2020 (applies only to 2020 unless later extended by law)

Some changes implemented to encourage charitable giving.

- ✓ Taxpayers taking the standard deduction can deduct up to \$300 per tax return in cash donations. Includes cash, check, credit card or debit card.
- ✓ It is a special “above-the-line” deduction to reduce tax liability. There is no requirement to itemize deductions to receive the benefit.
- ✓ Permits individuals who itemize to donate cash up to 100% of AGI. DAFs, supporting organizations and private foundations are ineligible.
- ✓ Corporations can deduct up to 25% of taxable income.

QUESTION: How do new laws impact retirement plans and charitable giving?

RETIREMENT PLANS

CARES Act

- ✓ RMDs (Required Minimum Distributions) for IRAs and Qualified Plans (401k) were waived for 2020. Enacted due to the negative impact on retirement accounts due to the market downturn in March.

SECURE Act – January 2020

- ✓ Significant retirement plan reform.
- ✓ RMD age changed from 70-1/2 to 72.
- ✓ IRA QCDs (Qualified Charitable Distributions) starting at age 70-1/2 still permitted.

QUESTION: What is a QCD?

Charitable IRA and QCD Qualified Charitable Distribution

- ✓ The QCD is a very smart and tax efficient way for seniors (70-1/2+) to give from traditional IRAs or inherited IRAs.
- ✓ Why? Most retirement plan assets are contributed pre-tax. Withdrawals are taxed as income. The QCD is a charitable vehicle used to bypass the tax.

BENEFITS

- ✓ Using the QCD is a great option to avoid tax on the withdrawal if gifted directly to the qualified charity. DAFs are ineligible.
- ✓ The QCD is an “above the line” income exclusion, a significant incentive for seniors taking the standard deduction. Itemizing deductions not required.
- ✓ A lower AGI may result in a lower tax on Social Security benefits & lower Medicare premiums.
- ✓ The QCD satisfies RMD requirements when in effect.

QUESTION: Can 401k withdrawals be taken as a QCD?

- ✓ No. But if a person transfers the 401k assets through a tax-free “direct rollover” to an IRA, in subsequent years the donor can gift from the IRA using the QCD tax exempt vehicle.

OTHER RETIREMENT PLAN OPTIONS

CARES Act

- ✓ Take advantage of 100% cash giving cap deduction of AGI for 2020.
- ✓ Do a full or partial Roth conversion from an IRA (transfer is taxed).
- ✓ Offset the Roth conversion tax with a cash gift up to 100% of AGI (or 60% after 2020).
- ✓ Roth benefits include future tax-free growth and withdrawals including a potential tax-free beneficiary distribution to heirs.

SECURE Act

- ✓ There is no age limit to contribute to an IRA if you have earned income.
- ✓ But there are QCD allowable limit restrictions if over age 72.

QUESTION: What is a DAF?

DAF Donor Advised Fund

- ✓ A DAF is a charitable gift investment fund housed within a 501(c)3 sponsoring organization.
- ✓ It is quick and easy to setup vs. the more complex Private Foundation.
- ✓ DAFs will accept cash, real estate & other illiquid assets to fund the account. QCDs cannot fund a DAF.
- ✓ DAFs pay grants spread out over future periods to qualified charities as advised by the donor.

BENEFITS

- ✓ High income earners who fund DAF receive current year itemized deduction.
- ✓ Donation deduction up to 60% for cash or 30% for appreciated asset of AGI.

THE BUNCHING CONCEPT OPTION

- ✓ Bunch charitable deductions into one year and itemize deductions.
- ✓ The following year(s) take the standard deduction.
- ✓ Example: If give \$10k per year but don't have enough for itemizing, fund a DAF for \$30,000 to qualify for a current year itemized deduction. Plan to spread giving by grants to charities over a 3- year period while taking the standard deduction.

QUESTION: What Legacy gifting options are available to heirs and charity?

LEGACY GIVING – THE BEST ASSETS TO GIVE

SECURE Act

- ✓ Made a dramatic change to retirement plan distribution rules.
- ✓ Eliminated the stretch lifetime IRA distribution benefit to non-spouse beneficiaries.
- ✓ Beneficiary children must take distributions within a 10-year period.
- ✓ Potential high tax impact to children diverting a large portion of IRA distributions to the government.

RETIREMENT PLANS LEGACY OPTION

- ✓ Due to tax impact, minimize passing IRA & Qualified retirement plan accounts to non-spouse heirs.
- ✓ Plan to designate appreciated assets (securities & real estate) via will or trust to children who benefit heirs from step-up valuation of assets, eliminating or reducing potential capital gains tax on liquidation.
- ✓ Maximize donating IRA & Qualified retirement plan accounts to charity on a tax-free basis.
- ✓ Review / update designated beneficiaries to reflect charitable giving plan.

RETIREMENT PLAN LEGACY OPTION - CRT (Charitable Remainder Trust)

- ✓ Name a CRT as the IRA designated beneficiary for tax-free transfer.
- ✓ The CRT creates lifetime income stream for children.
- ✓ Tax on income distributions reduced due to stretch payments over a lifetime, not restricted to a 10-year period.
- ✓ Charity receives a remainder Legacy gift at the end of the CRT term.

DONOR ADVISED FUND LEGACY OPTION

- ✓ Name charity on DAF agreement as account beneficiary.
- ✓ Name children as DAF successor advisors to continue legacy gifting to charities.

ADVISORY

Each of these gifting options requires careful planning and coordination. Discuss charitable goals with advisors and share legacy gift plans with family members.

CONTACT PLANNED GIVING FOR ASSISTANCE WHEN REQUIRED

Visit CBNLEGACY.org, call 1-800-333-2373 or email PlannedGiving@CBN.org

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