



## **Special Charitable Financial Planning Opportunities for March/April 2023**

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Russell James, J.D., Ph.D., CFP®  
Professor, Personal Financial Planning  
Texas Tech University



From simple to  
complex

- 1. The strategies**
- 2. How things changed**

Gifts of assets make sense because a drop doesn't mean it isn't still worth more than you paid for it

Market Summary > S&P 500

4,101.52

+ Follow

+1,481.97 (56.57%) ↑ past 5 years

Feb 6, 10:46 AM EST • Disclaimer

1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



Even in the worst of times, not everything dropped

- Gold TTM price: +28.5%
- NCREIF Farmland property index 2020 Annual Total +3.85%
- Walmart, Amazon, Pharmaceuticals, Clorox were big winners early on

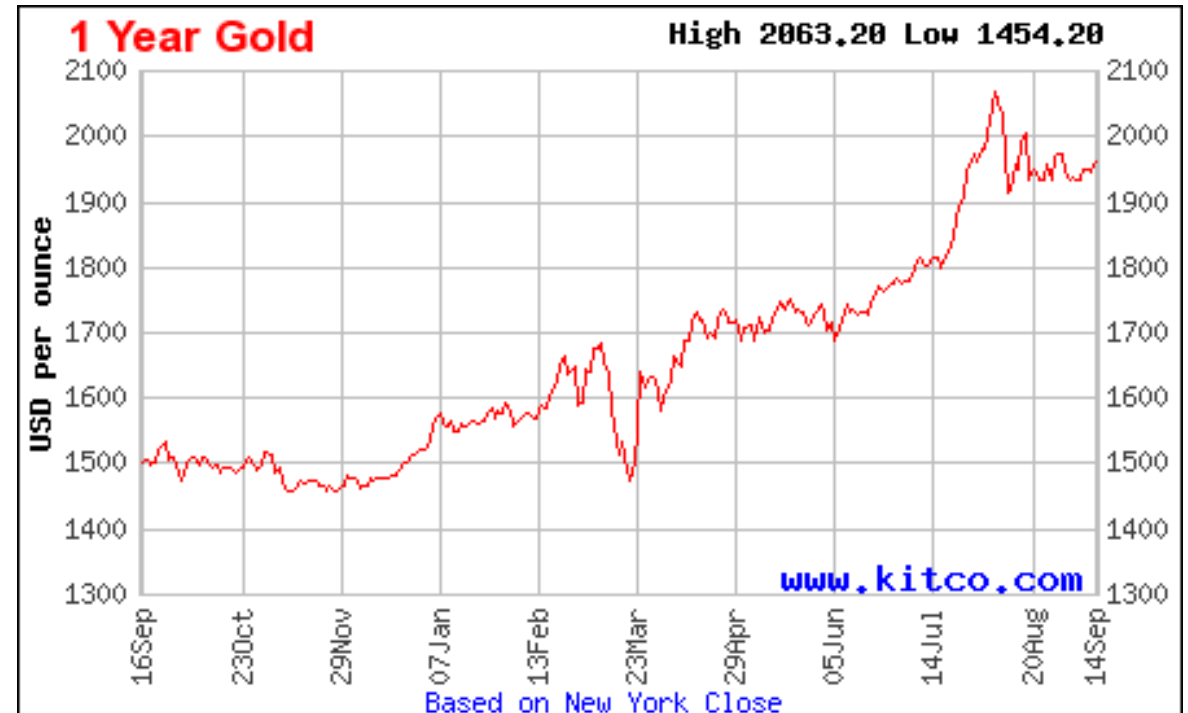
Market Summary > Amazon.com, Inc.  
NASDAQ: AMZN

+ Follow

**3,110.28** USD **-27.11 (0.86%)** ↓

Closed: Nov 12, 5:26 PM EST · Disclaimer  
After hours 3,111.36 +1.08 (0.035%)

1 day 5 days 1 month 6 months YTD **1 year** 5 years Max



# Appreciated asset gifts are objectively cheaper



**Tax  
deduction  
only**

**Tax deduction  
+  
Avoid capital  
gains tax**

# Asset gifts are cheaper for itemizers



# Asset gifts are cheaper for non-itemizers

  
**Donor**



**\$10k Cash** →



**Nonprofit**

~~Income tax deduction  
(\$10,000 x 37%)  
**\$3,700**~~

**Costs \$10,000**

  
**Donor**



**\$10k Stock** →



**Nonprofit**

~~**\$3,700**~~  
+  
Avoid capital gains  
(\$9,000 x 23.8%)  
**\$2,142**

**Costs \$7,858**

# Asset gifts are cheaper for non-itemizers (especially with state capital gains taxes)

  
Donor



**\$100k Cash**



Nonprofit



~~Income tax deduction  
(\$10,000 x 37%)  
**\$3,700**~~

Costs \$10,000

  
Donor



**\$100k Stock**



Nonprofit

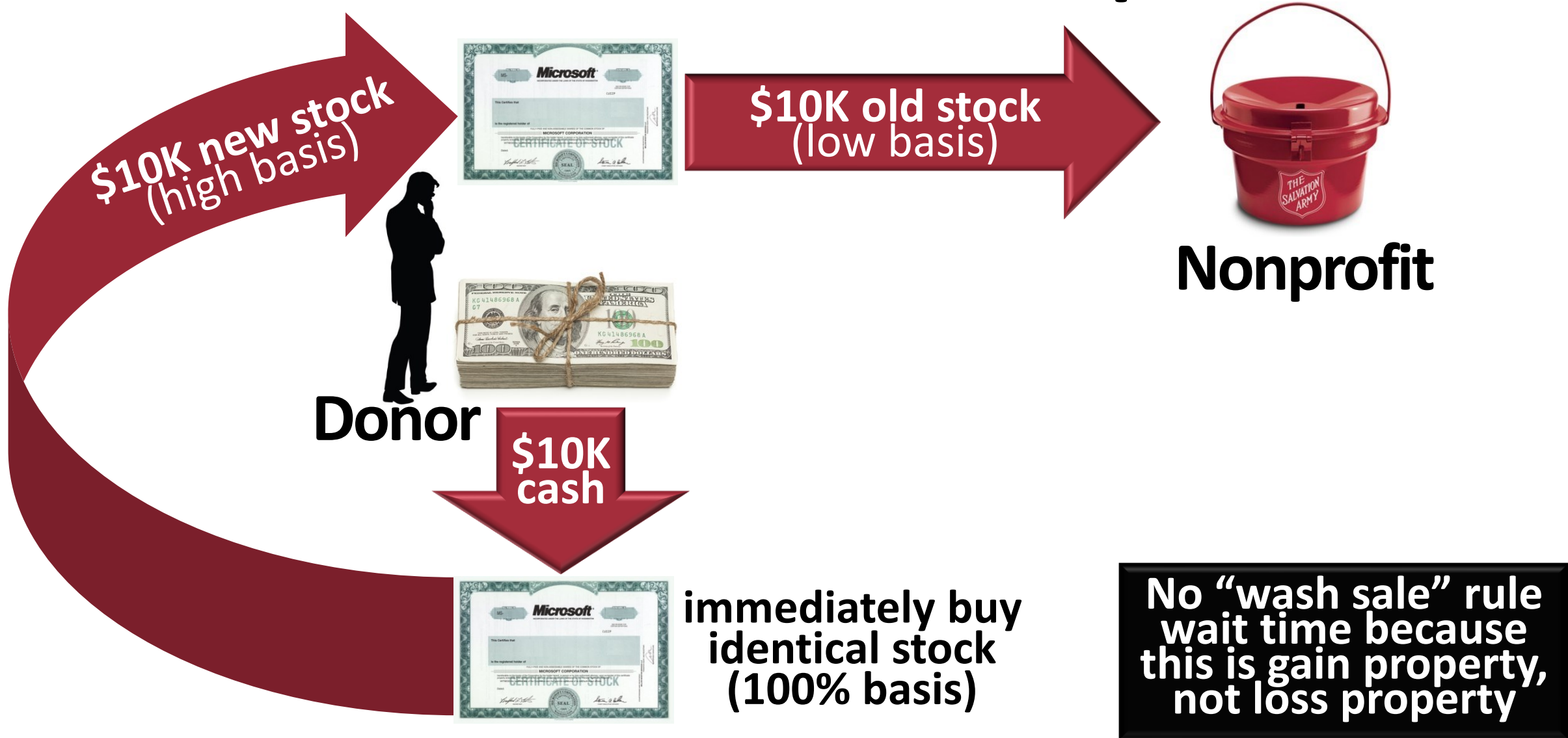


~~\$37,000~~  
+  
Avoid capital gains  
(\$9,000 x 23.8%)+  
(\$9,000 x 6%)  
**\$2,682**

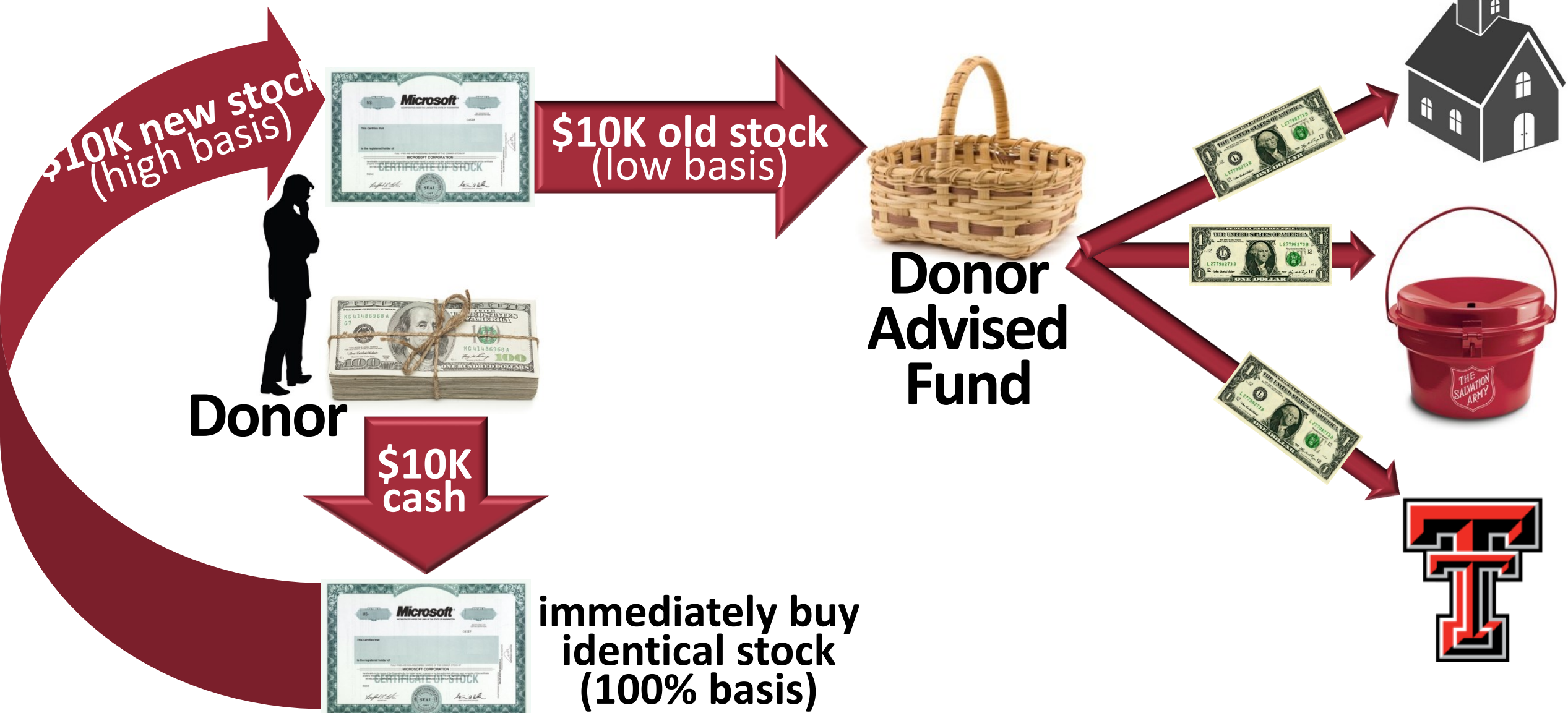
Costs \$7,318



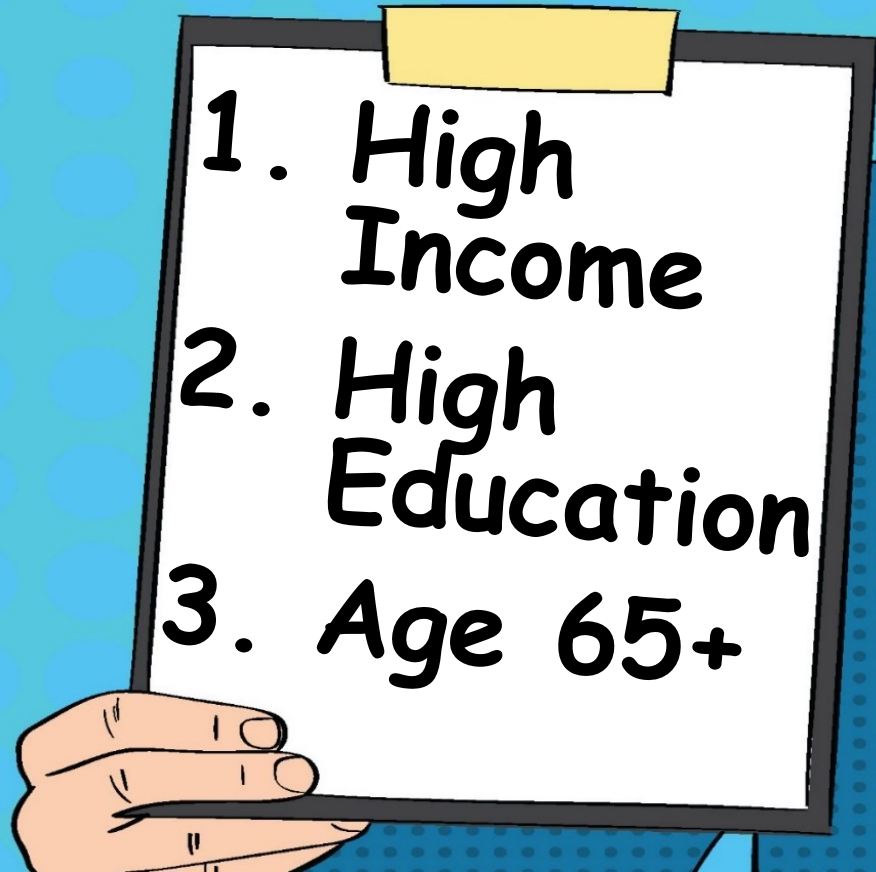
# No need to change your portfolio! The Charitable Swap



# The Charitable Swap with a DAF



# What predicts who will donate noncash assets?

- 
1. High Income
  2. High Education
  3. Age 65+

No significant differences for gender, other age distinctions, marriage, childlessness, African-American, Caucasian, Asian

# Tax incentives matter more



1. Giving cash to education was 2x more responsive to tax price than giving cash to religion
2. Giving stocks, bonds, or mutual funds to any charity was 10x more responsive to tax price than giving cash to education

# How to talk about gifts of assets



**Should  
you  
mention  
tax  
benefits?**



# Social Desirability Bias

People report  
socially-approved  
motivations



Other motivations  
must be tested,  
not self-reported



# Mentioning tax deductions increases charitable interest

**Avoid capital gains tax**  
**by** making a gift of  
stocks or bonds to a  
charity.

Interested Now <i>definitely/somewhat/slightly</i>	Will Never Be Interested
<b>20%</b>	<b>17%</b>

Random  
assignment

Make a gift of stocks  
or bonds to charity.

<b>14%</b>	<b>23%</b>
------------	------------



# Mentioning tax deductions increases charitable interest

Random rotating assignment

**Interested Now**  
*definitely/somewhat/slightly*

**Will Never Be Interested**

**50%**

**Receive a tax deduction and** make a gift that pays you income for life.

**8%**

**33%**

Make a gift that pays you income for life **and receive a tax deduction.**

**14%**

**31%**

Make a gift that pays you income for life.

**20%**

# Mentioning tax deductions increases charitable interest

Random rotating assignment

**Interested Now**  
*definitely/somewhat/slightly*

**26%**

**Immediately receive a tax deduction for 70% of the value of a house or land by** making a charitable gift of the property, but keeping the RIGHT TO USE it for the rest of your life.

**Will Never Be Interested**

**23%**

**12%**

Make a charitable gift of either a house or land, but keep the RIGHT TO USE for the rest of your life **and immediately receive a tax deduction for 70% of the value of the property.**

**33%**

**11%**

Make a charitable gift of either a house or land, but keep the RIGHT TO USE it for the rest of your life.

**42%**

# Mentioning tax deductions increases charitable interest

Random rotating assignment

**Interested Now**

*definitely/somewhat/slightly*

**28%**

**Get an immediate tax deduction**

by making a gift where you still control the investment of the assets, and receive income from the investments for the rest of your life with anything left over going to charity at your death.

**Will Never Be Interested**

**17%**

**27%**

Make a gift where you **get an immediate tax deduction**, still control the investment of the assets and receive income from the investments for the rest of your life with anything left over going to charity at your death.

**20%**

**21%**

Make a gift where you still control the investment of the assets, and receive income from the investments for the rest of your life with anything left over going to charity at your death.

**25%**

**Best phrasing  
to describe  
tax benefits**



I might  
be/am  
definitely  
interested

\_\_\_%

\_\_\_%

\_\_\_%

\_\_\_%

\_\_\_%

\_\_\_%

**Please rate your level of interest  
in clicking on the button to read  
the corresponding information.**

**Avoid taxes by giving stocks**

**How to avoid taxes by giving  
stocks**

**Save taxes by giving stocks**

**Tax tips when giving stocks**

**Avoiding capital gains taxes by  
giving stocks**

**Giving stocks**

I might  
be/am  
definitely  
interested

**28%**

**Avoid taxes by giving stocks**

**27%**

**How to avoid taxes by giving  
stocks**

**25%**

**Save taxes by giving stocks**

**24%**

**Tax tips when giving stocks**

**24%**

**Avoiding capital gains taxes by  
giving stocks**

**16%**

**Giving stocks**

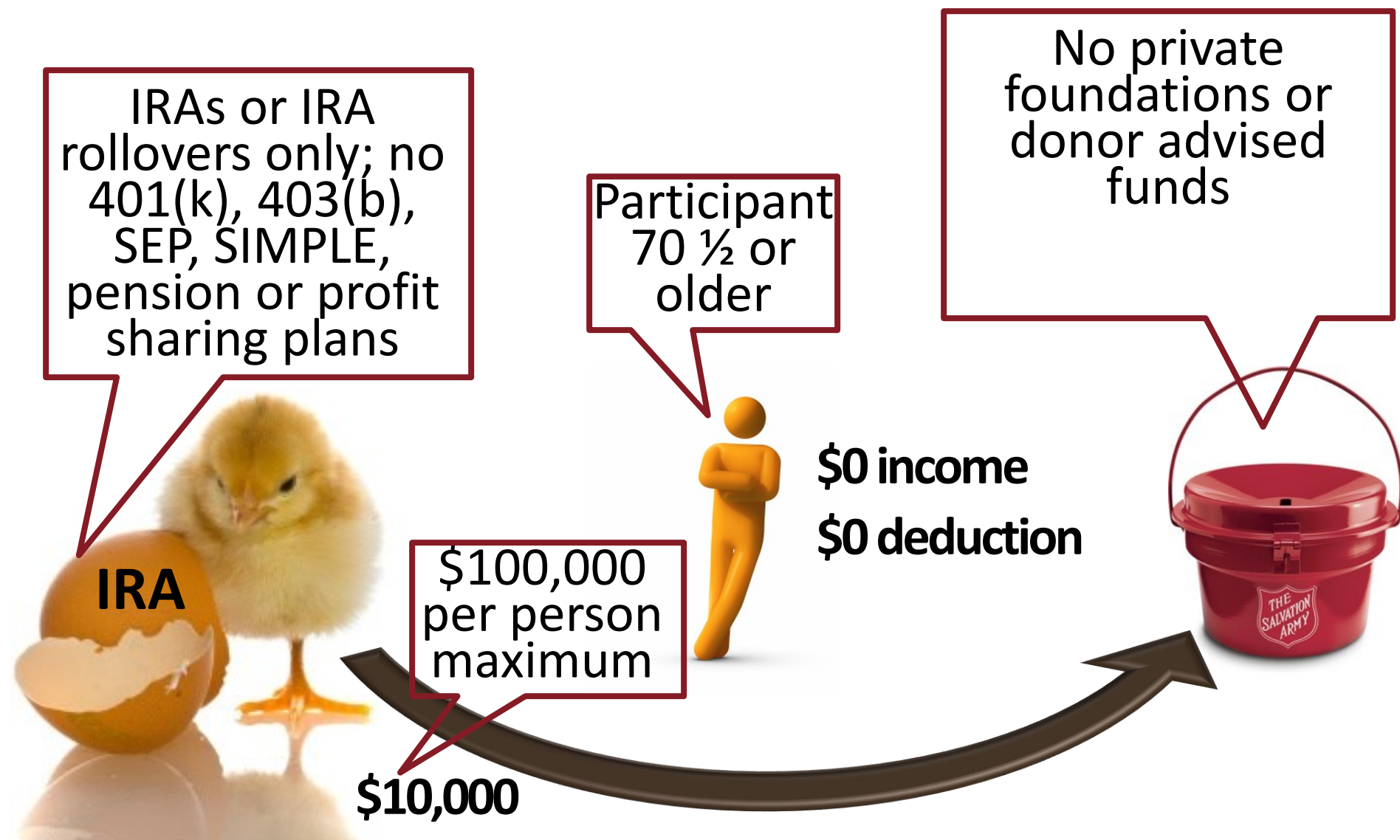
**Please rate your level of interest  
in clicking on the button to read  
the corresponding information.**



# Accepting noncash gifts is safer today

- Using DAFs that accept any asset type
- Using new instruments like the single-asset LLC

# Required Minimum Distributions are back but you can still give up to \$100,000 with QCDs!





# New for 2023, transfer to a charitable gift annuity



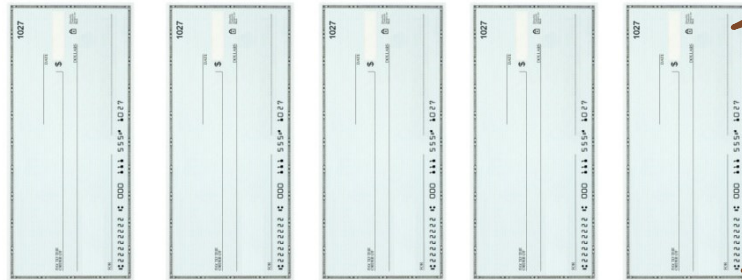
Entire amount counts toward RMD

\$50,000 per person maximum lifetime

Payable only to participant and spouse [non-assignable!]

100% taxable income

5% min payout



2024 2025 2026 2027 2028 ...



Death

# Beware of the traps

- Don't use standard CGA document – must be nonassignable
- Must be 5% minimum payout (even when paying both spouses) – ACGA 72-75 + 63 or younger is under this!
- Still 10%+ charitable present value (otherwise it's not a CGA and you are selling a security)
- Must be completely separate CGA; No joint funding/ combinations/ later additions





# Beware of other issues

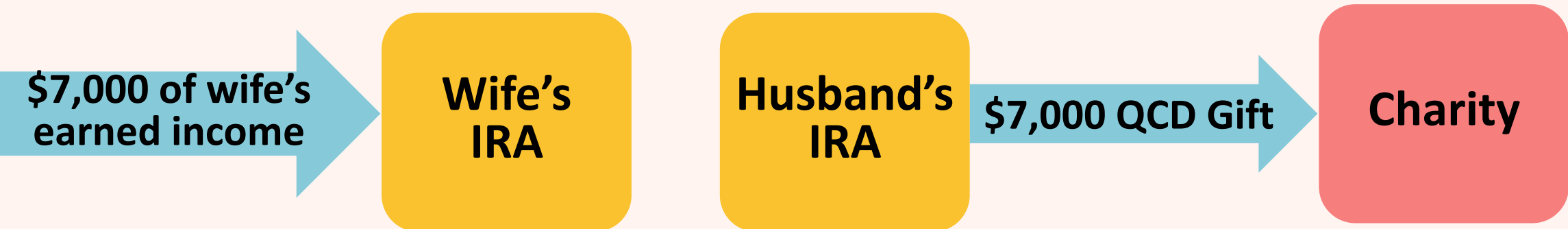
- Warning – be ready for CGA requests at odd amounts, exactly matching RMD for the year
- Should you even market this? Is it extra money or just cannibalizing QCDs?
- Technically, you can send to a CRT, but currently admin/drafting costs are likely prohibitive

# The SECURE Act's "above-the-line" charitable deduction

A donor couple has earned income, but doesn't want to add to combined IRA balance



**RESULT:**  
An unusable itemized deduction



**RESULT:**  
An above-the-line \$7,000 deduction for Wife's IRA contribution regardless of her age.  
No change in combined IRA balance: \$7,000 shift from Husband's IRA to Wife's IRA.  
A \$7,000 reduction in Husband's Required Minimum Distribution with no income recognition.



**Retirement  
plan assets  
inherited by  
non-charitable  
beneficiaries  
are reduced by  
income tax**

**A client with a  
\$1MM IRA and  
a \$1MM house  
wants to leave  
one to her child  
and one to  
charity**

**Does it matter  
which goes  
where?**



IRA(child); House(charity)

\$1,000,000 House  
**\$1,000,000 to charity**

\$1,000,000 IRA  
-\$370,000 (37% federal income tax)  
-\$133,000 (13.3% California state  
income tax)  
**\$497,000 to child**

**SECURE Act now requires  
faster withdraw (10 years)**

IRA(charity); House(child)

\$1,000,000 IRA  
**\$1,000,000 to charity**

\$1,000,000 House  
-\$0 (no income tax)  
**\$1,000,000 to child**



# Retirement plan charitable beneficiaries



- A public charity
- A private family foundation
- A charitable remainder trust



# Bad retirement plan death beneficiaries

- Not Charitable Lead Trusts (because they aren't tax exempt)
- Avoid naming estate as beneficiary with instructions in estate documents (estate itself may have to pay income taxes)



# Easy answers to a misunderstood issue

**Problem?** Charities are not “designated beneficiaries”, so might accelerate RMD’s for other beneficiaries.

**No problem! Solutions:**

- Payout charity share before September 30 of year following participant death.<sup>1</sup>
- Beneficiaries can separate accounts by end of year following participant death.<sup>2</sup>
- If spouse is beneficiary, simply roll that share into spouse’s IRA
- Separate IRAs into a 100% charitable and 100% non-charitable account before death (+ RMDs can be taken from either to match desired plans)



1. Treas. Reg. sec. 1.401(a)(9)-4 Q&A 4(a)

2. Treas. Reg. sec. 1.401(a)(9)-8 Q&A 2(a)

# Charitable Gift Annuities



**The hot new item?**

## 2023 rates

30 3.7%

40 3.9%

45 4.0%

50 4.2%

55 4.3%

60 4.9%

65 5.4%

70 5.9%

75 6.6%

80 7.6%

85 7.6%

90+ 9.7%

# Example donor ages & rates

Jan 2023, American Council on Gift Annuities



## 2021 rates

30 2.1%

40 2.6%

45 2.9%

50 3.3%

55 3.7%

60 3.9%

65 4.2%

70 4.7%

75 5.4%

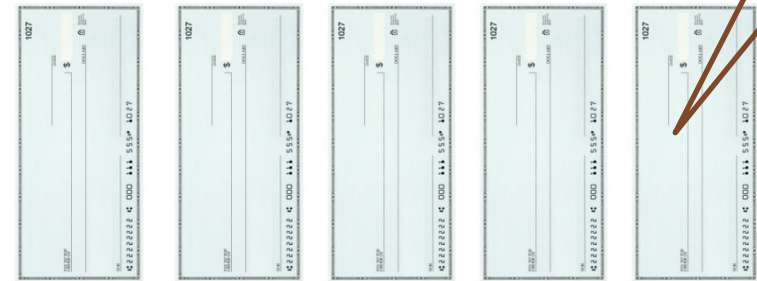
80 6.5%

85 7.6%

90+ 8.6%

# Charity

Payments are a fixed obligation of the charity, regardless of market events



2024 2025 2026 2027 2028

...



Death



I want income  
that won't change  
*(CRUT or PIF)*  
or run out  
*(CRAT)*

# Taxation of Charitable Gift Annuities

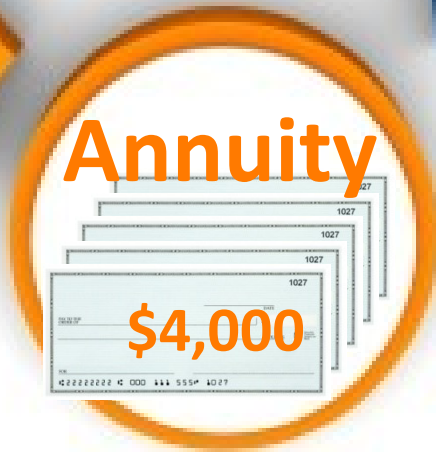


**Ordinary  
Income**

**Tax Free  
Return of  
Investment**

**Capital  
Gain**

**Gift Taxes**



**Charitable  
Deduction**



**Charitable  
deduction  
is the  
value of  
what you  
give less  
the value  
of what  
you get  
back**



**\$100,000 Cash**  
**– Value of Annuity**  
**Charitable Deduction**

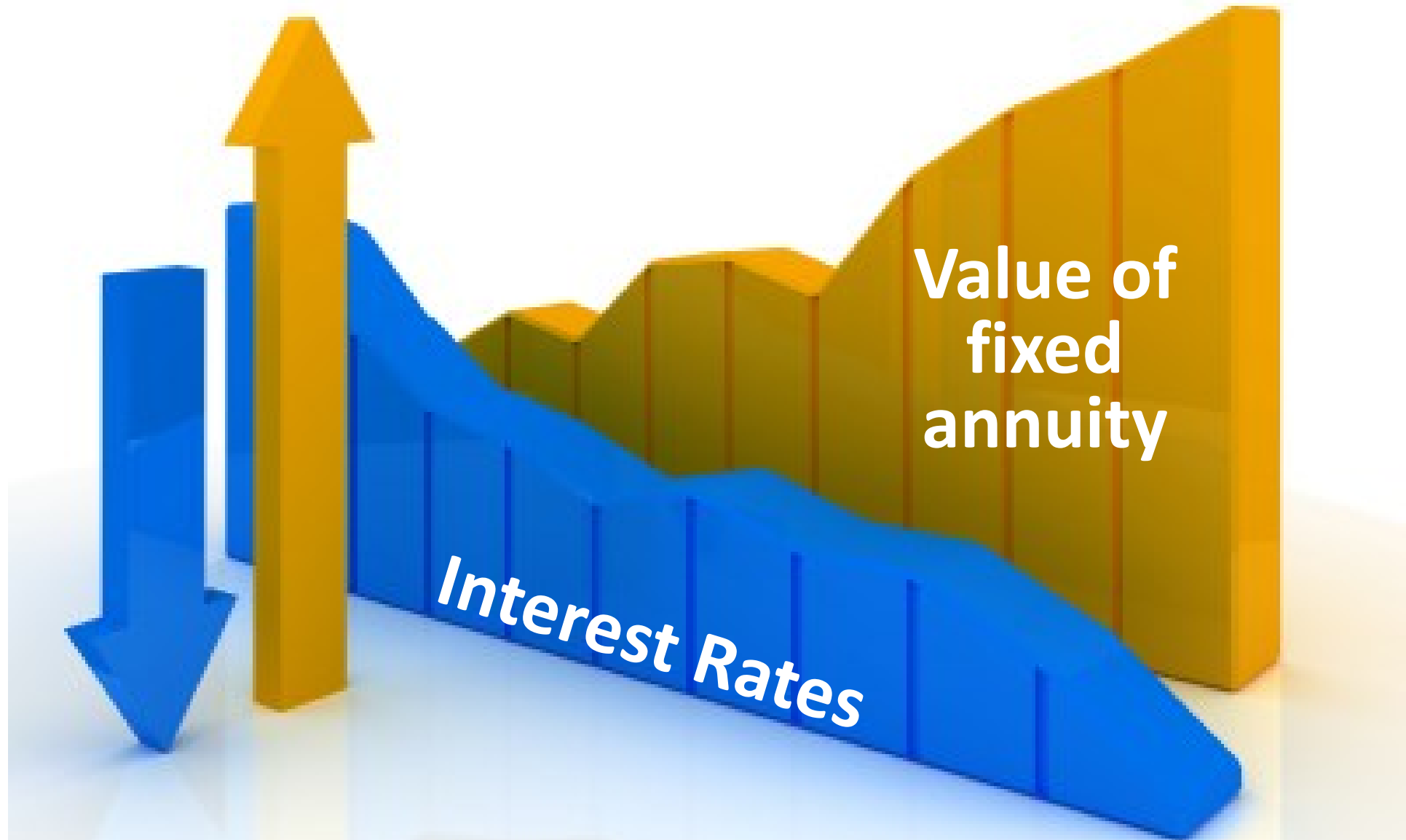


**Donor gives \$100,000**



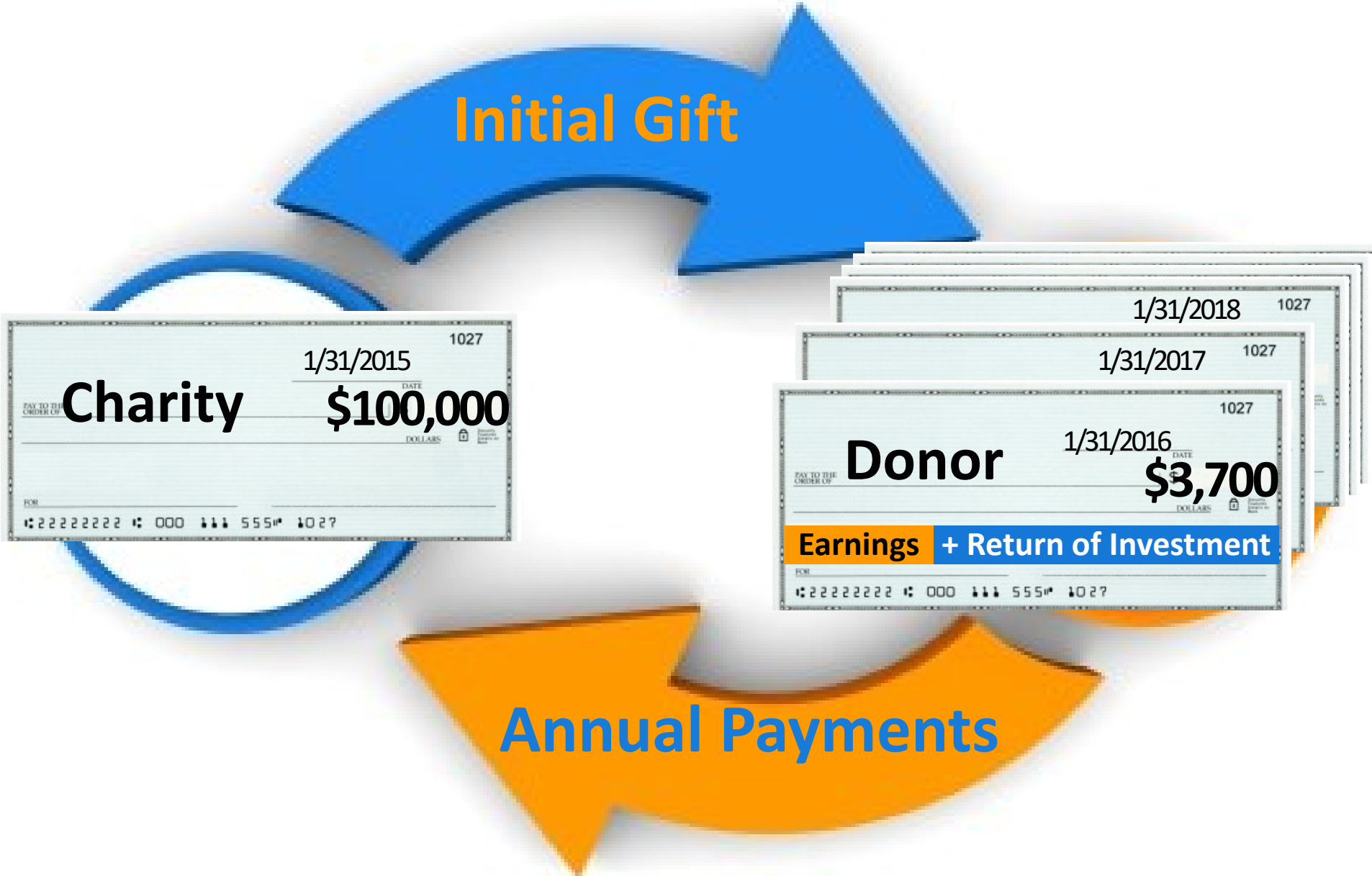
**Charity pays age 55 donor \$3,700 per year for life**



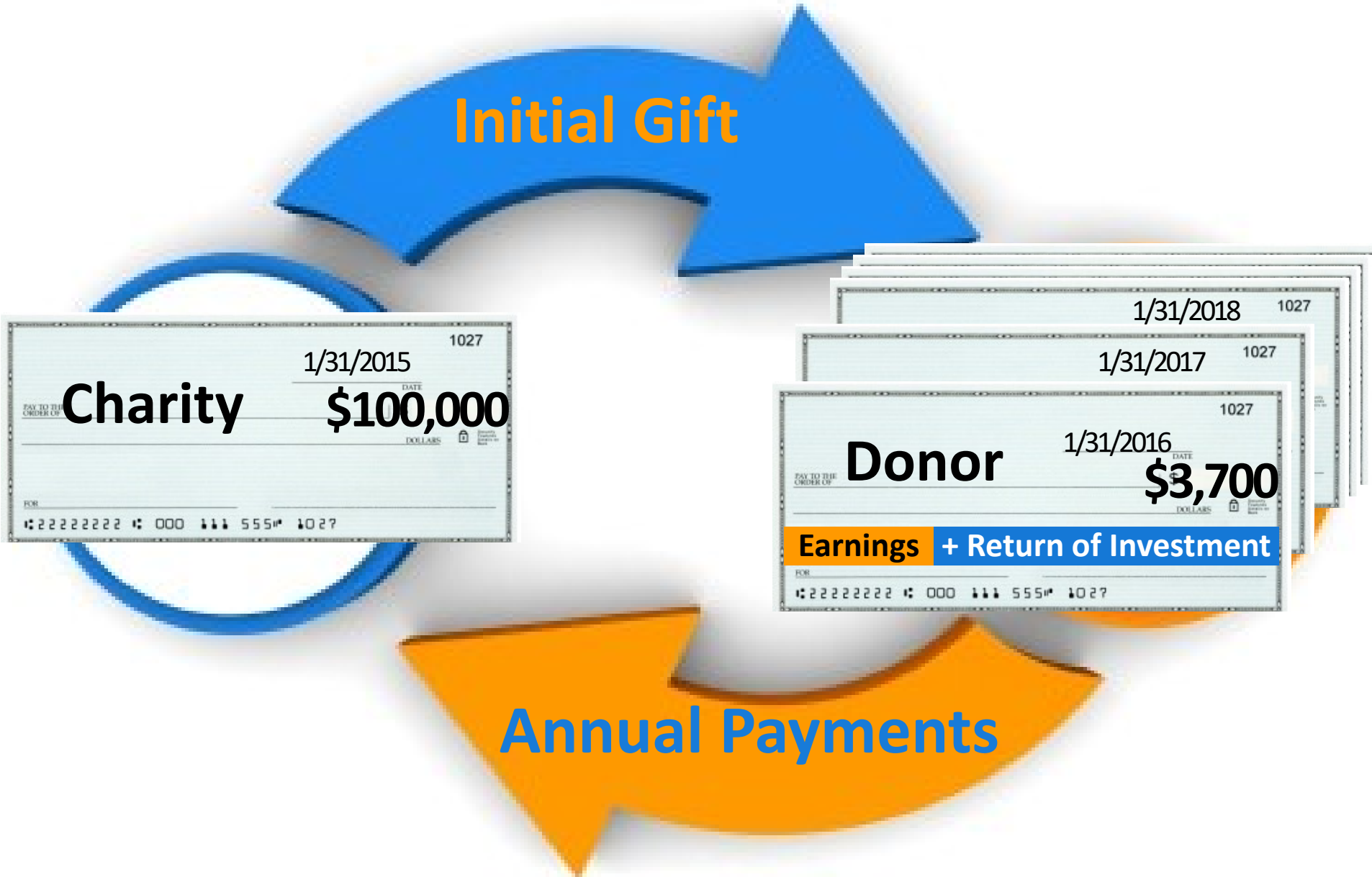


**High interest rate = More deduction but less “tax free return of capital” share of payments**

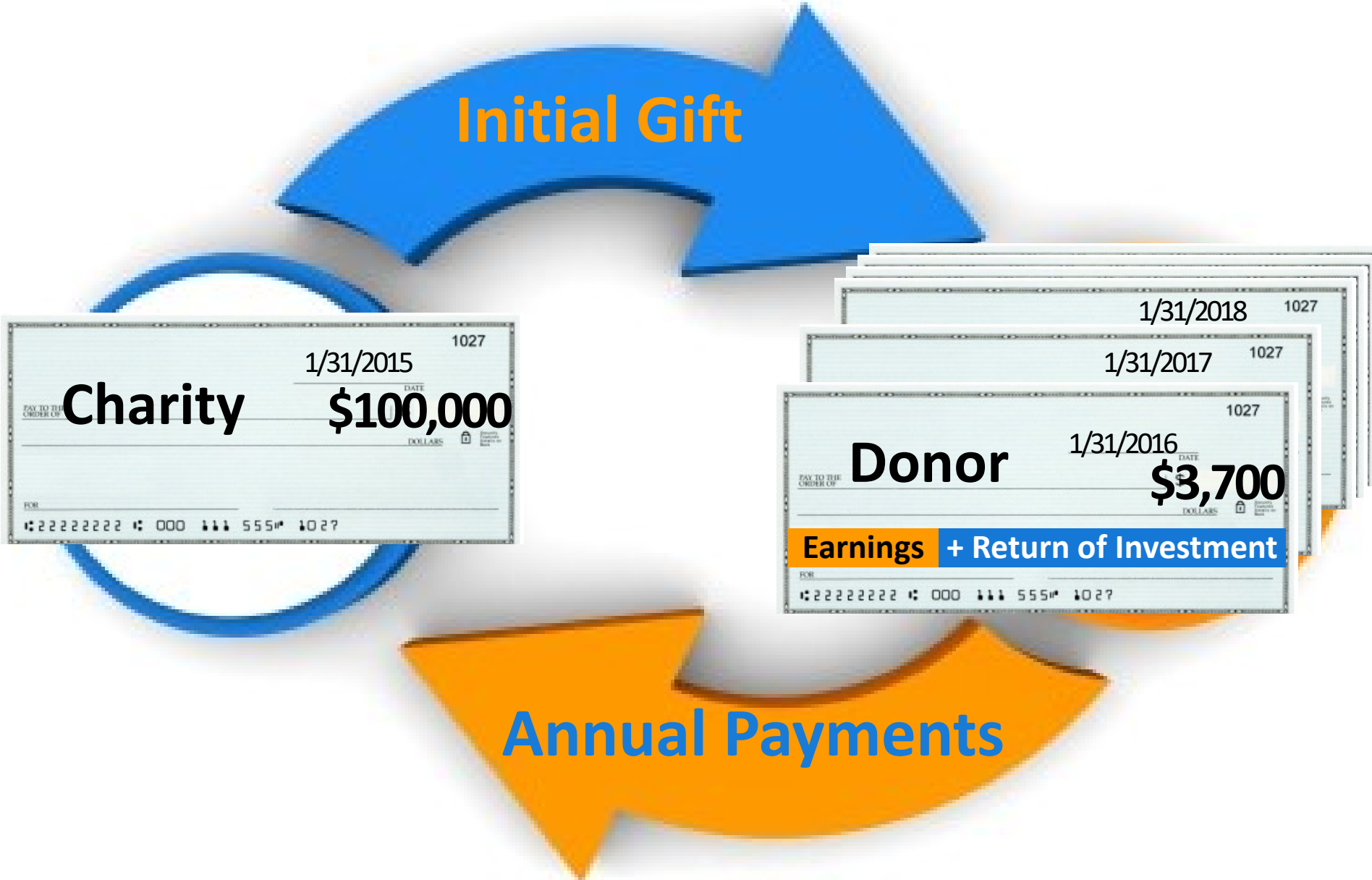
# Part of each annuity check just gives you back some of the money you paid

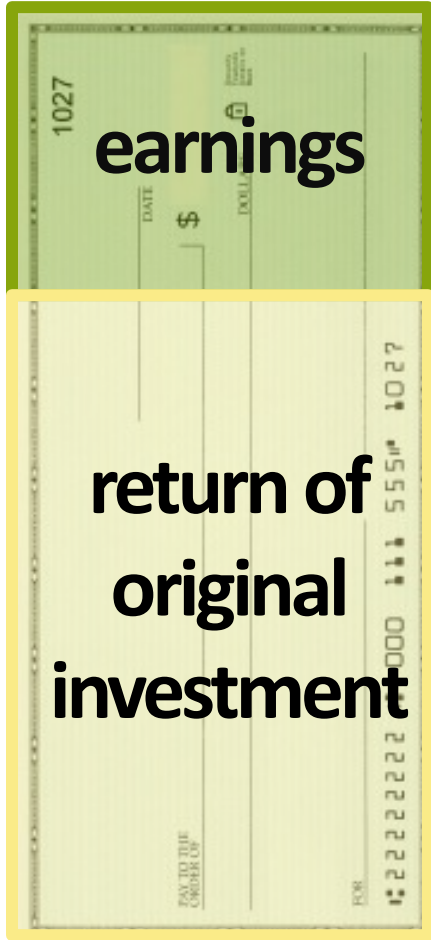


# The rest is earnings (taxable)



# There is NO tax on getting back your own money





NOT the deductible gift part of the transaction

$$\frac{\$ \text{ used to buy annuity}}{\text{Original life expectancy}} = \text{Annual return of investment}$$

**If funded with an IRA this doesn't apply!**



**100% taxable!**

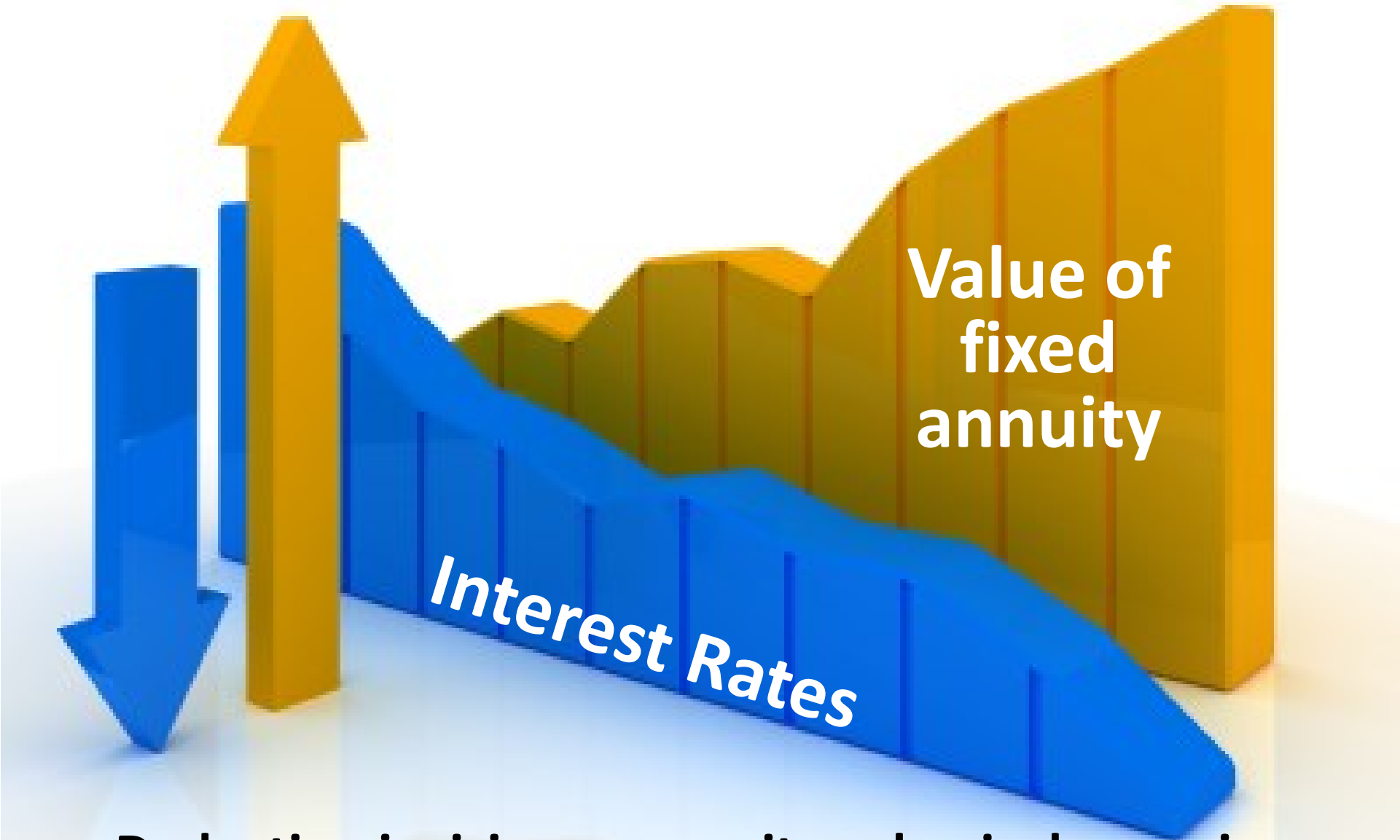


**NOT the deductible gift part of the transaction**

$$\frac{\$ \text{ used to buy annuity}}{\text{Original life expectancy}} = \text{Annual return of investment}$$







**Deduction is rising as annuity value is decreasing**

# Testing Charitable Gift Annuity Ad Messages



People like me do  
things like this

James, R. N., III (2019).  
Using donor images in  
marketing complex  
charitable financial  
planning instruments: An  
experimental test with  
charitable gift annuities.  
Journal of Personal  
Finance. 18(1), 65-74.

# What “you” would do or what another donor has done?

You make a gift and receive a tax deduction and yearly income for life. Any unused gift amount will go to the charity at the end of your life.

Gift Annuity

Interested Now  
Definitely/somewhat/slightly

All: \_\_\_\_\_ %  
55+: \_\_\_\_\_ %

Sara made a gift and received a tax deduction and yearly income for life. Any unused gift amount will go to the charity at the end of her life.

Gift Annuity

All: \_\_\_\_\_ %  
55+: \_\_\_\_\_ %

Please rate your interest in pursuing the above described charitable giving arrangement

# What “you” would do or what another donor has done?

You make a gift and receive a tax deduction and yearly income for life. Any unused gift amount will go to the charity at the end of your life.

Gift Annuity

Interested Now  
Definitely/somewhat/slightly

**All: 33.5%**  
**55+: 23.2%**

Sara made a gift and received a tax deduction and yearly income for life. Any unused gift amount will go to the charity at the end of her life.

Gift Annuity

**All: 38.6%**  
**55+: 38.6%**

Please rate your interest in pursuing the above described charitable giving arrangement

# Text only or text and donor picture?

Sara made a gift and received a tax deduction and yearly income for life. Any unused gift amount will go to the charity at the end of her life.

Gift Annuity

Sara made a gift and received a tax deduction and yearly income for life. Any unused gift amount goes to the charity at the end of her life.



Gift Annuity

Please rate your interest in pursuing the above described charitable giving arrangement: % Interested now (definitely/somewhat /slightly)

All: \_\_\_\_\_%

55+: \_\_\_\_\_%

All: \_\_\_\_\_%

55+: \_\_\_\_\_%

# Text only or text and donor picture?

Sara made a gift and received a tax deduction and yearly income for life. Any unused gift amount will go to the charity at the end of her life.

Gift Annuity

Sara made a gift and received a tax deduction and yearly income for life. Any unused gift amount goes to the charity at the end of her life.



Gift Annuity

Please rate your interest in pursuing the above described charitable giving arrangement: % Interested now (definitely/somewhat /slightly)

**All: 38.6%**

**55+: 38.6%**

**All: 31.1%**

**55+: 29.8%**

**What's the problem with the donor picture? Is it just this photo? This donor age? Is it photos in general or what?**



Interested now (definitely/somewhat /slightly)

Sara made a gift and received a tax deduction and yearly income for life. Any unused gift amount goes to the charity at the end of her life.



Gift Annuity

55+  
\_\_\_\_\_ %

35-54  
\_\_\_\_\_ %

U-35  
\_\_\_\_\_ %

Sara made a gift and received a tax deduction and yearly income for life. Any unused gift amount goes to the charity at the end of her life.



Gift Annuity

\_\_\_\_\_ %

\_\_\_\_\_ %

\_\_\_\_\_ %

Sara made a gift and received a tax deduction and yearly income for life. Any unused gift amount goes to the charity at the end of her life.



Gift Annuity

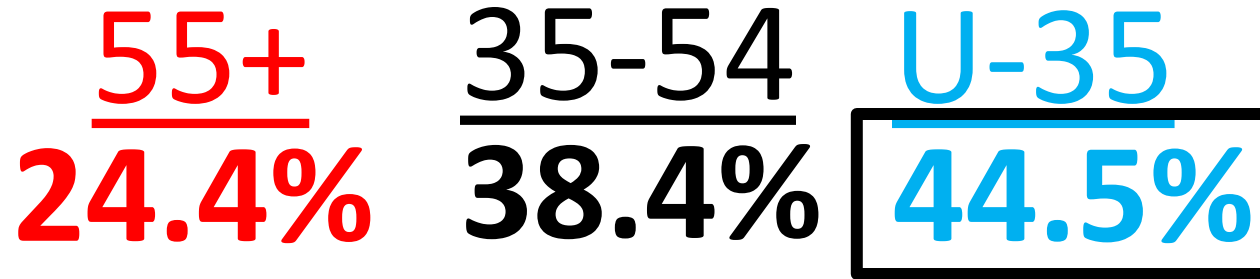
\_\_\_\_\_ %

\_\_\_\_\_ %

\_\_\_\_\_ %



Interested now (definitely/somewhat /slightly)



Sara made a gift and received a tax deduction and yearly income for life. Any unused gift amount goes to the charity at the end of her life.



Gift Annuity

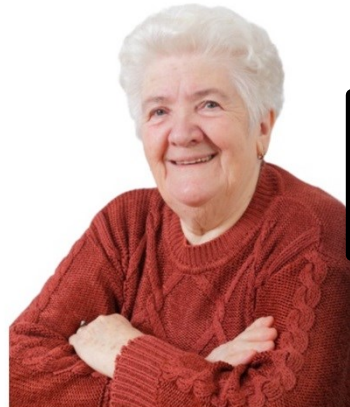
Sara made a gift and received a tax deduction and yearly income for life. Any unused gift amount goes to the charity at the end of her life.



Gift Annuity



Sara made a gift and received a tax deduction and yearly income for life. Any unused gift amount goes to the charity at the end of her life.



Gift Annuity



People like me do things like this

**How do these compare with text only or a non-donor photo?**



# Similar [dissimilar] age donor photos did better [worse] than text only or non-donor photo



## Why?

The association was  
completely explained  
(mediated) by the  
answer to one  
question...

# How much do you identify with Sara?

—

- She is not at all like me
- She is not really like me
- She is a little bit like me
- She is somewhat like me
- She is a lot like me

People like me do things like this

# Non-Grantor Charitable Lead Trust

Donor gives money from which charity receives payments, with remaining amount going to family members

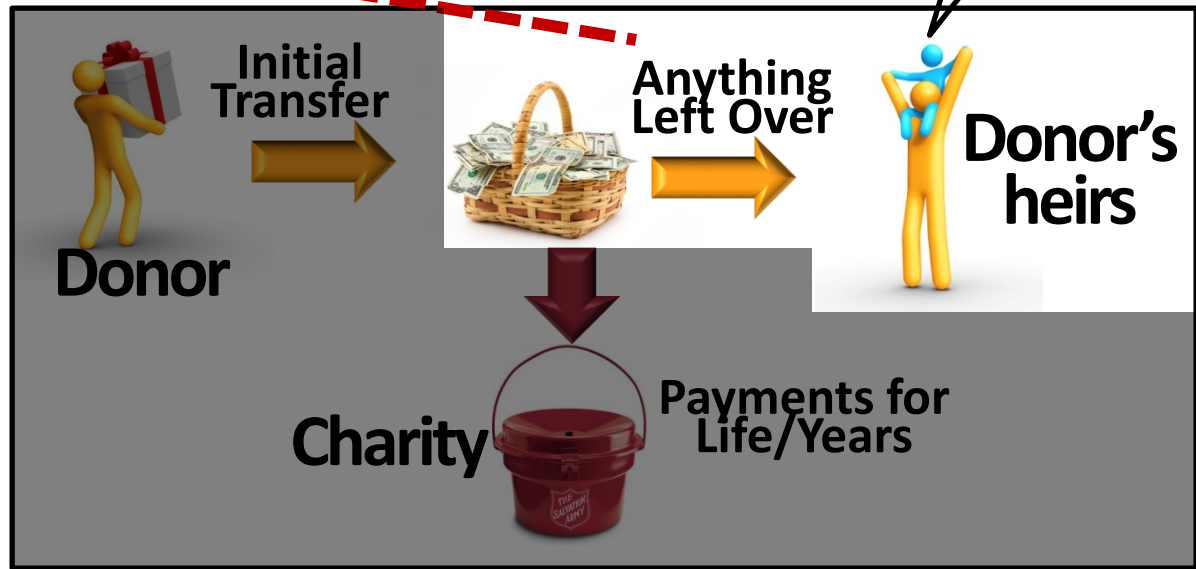




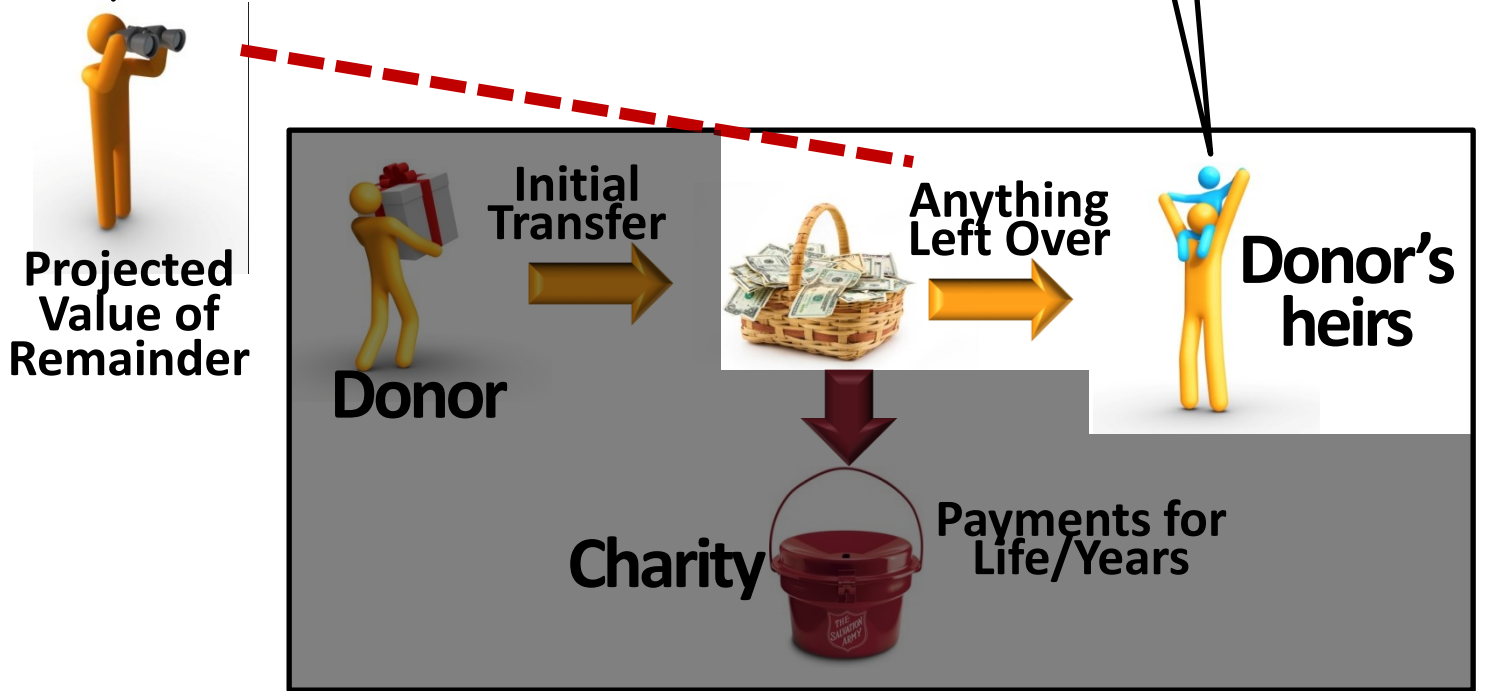
**Using non-grantor Charitable Lead Trusts to cut gift and estate taxes**

Gift taxes are paid on the present value of the **PROJECTED** remainder going to the heirs

Gift taxes are not paid on the **ACTUAL** remainder that eventually goes to the heirs



If the **ACTUAL** amount is higher than the **PROJECTED** amount, this part goes to heirs tax free

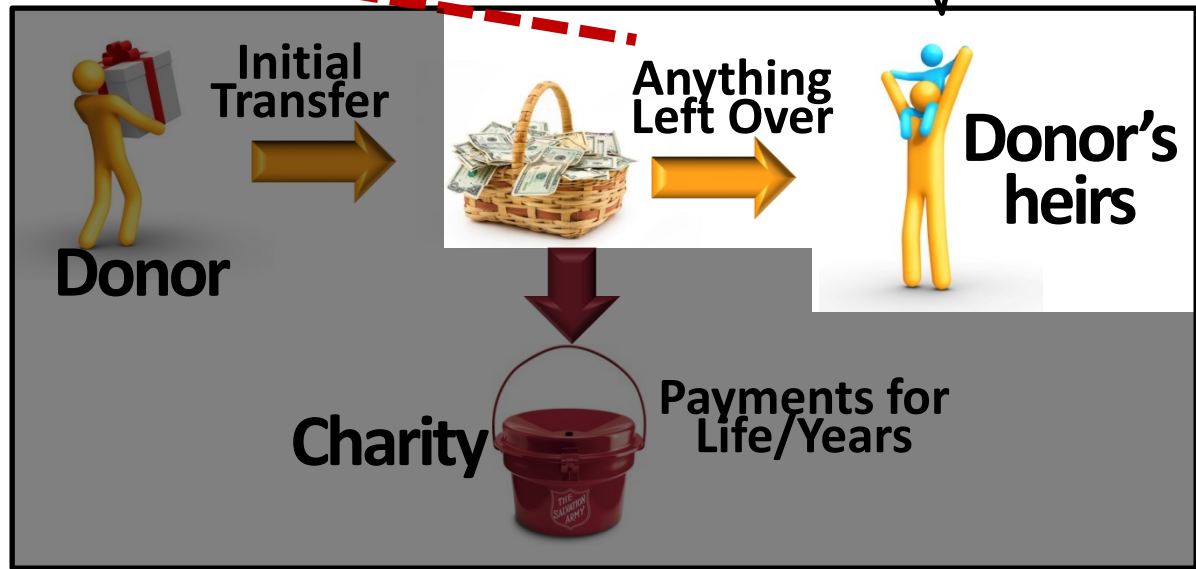




The **PROJECTED** remainder assumes investment growth at the **INITIAL** \$7520 rate

If actual growth is greater than the \$7520 rate, the **ACTUAL** remainder will be greater than projected

Projected Value of Remainder



The **PROJECTED** remainder of \$10MM at 0.4% \$7520 with \$521,266/year charitable payments for 20 years is \$0, resulting in \$0 gift taxation

If actual growth is 8%, the **ACTUAL** remainder will be \$22,755,415

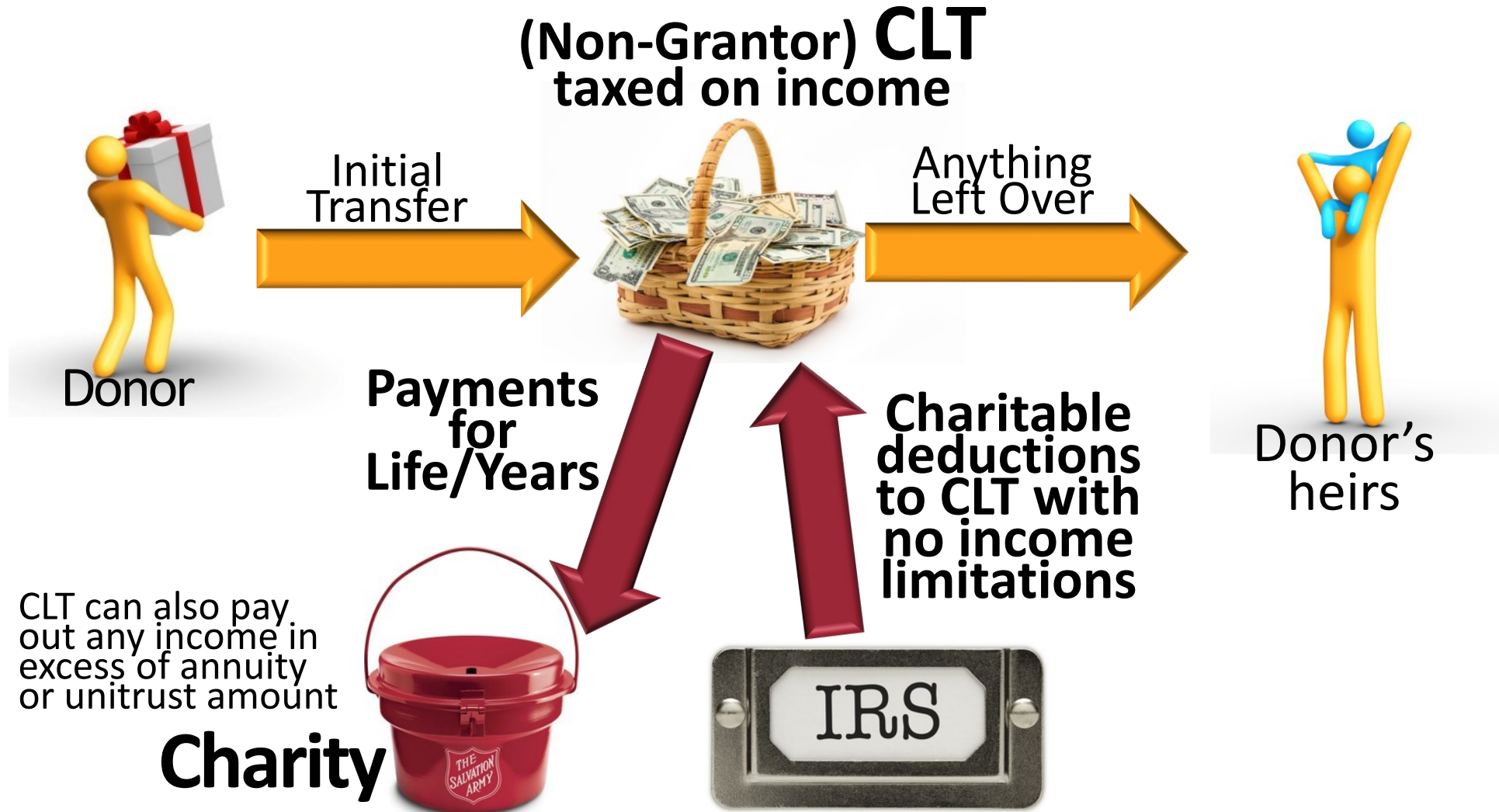
  
Projected Value of Remainder



If the  
charitable gift  
*(or bequest)*  
was already  
planned, the  
zeroed-out  
CLAT  
*(or zeroed-out  
testamentary  
CLAT)*  
provides a no  
cost chance at  
tax-free  
transfers to  
family

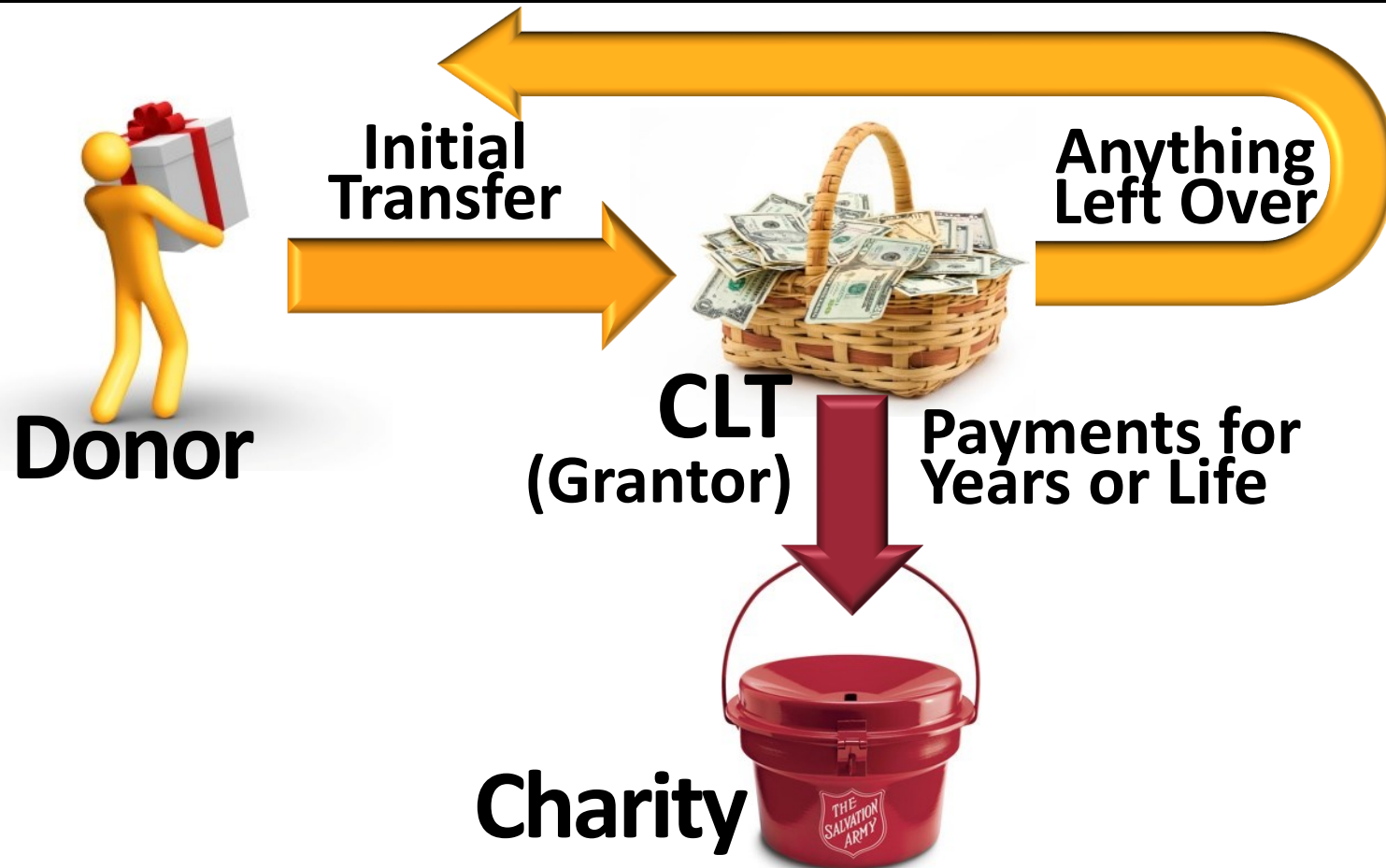


# Non-Grantor CLT pays income taxes but deducts charitable distributions usually without income limitations



# Grantor CLT

Donor immediately deducts present value of all future projected payments to charity



Funding \$10,000/year gifts through a 20-year grantor CLAT (returning remainder to donor) creates an immediate deduction of

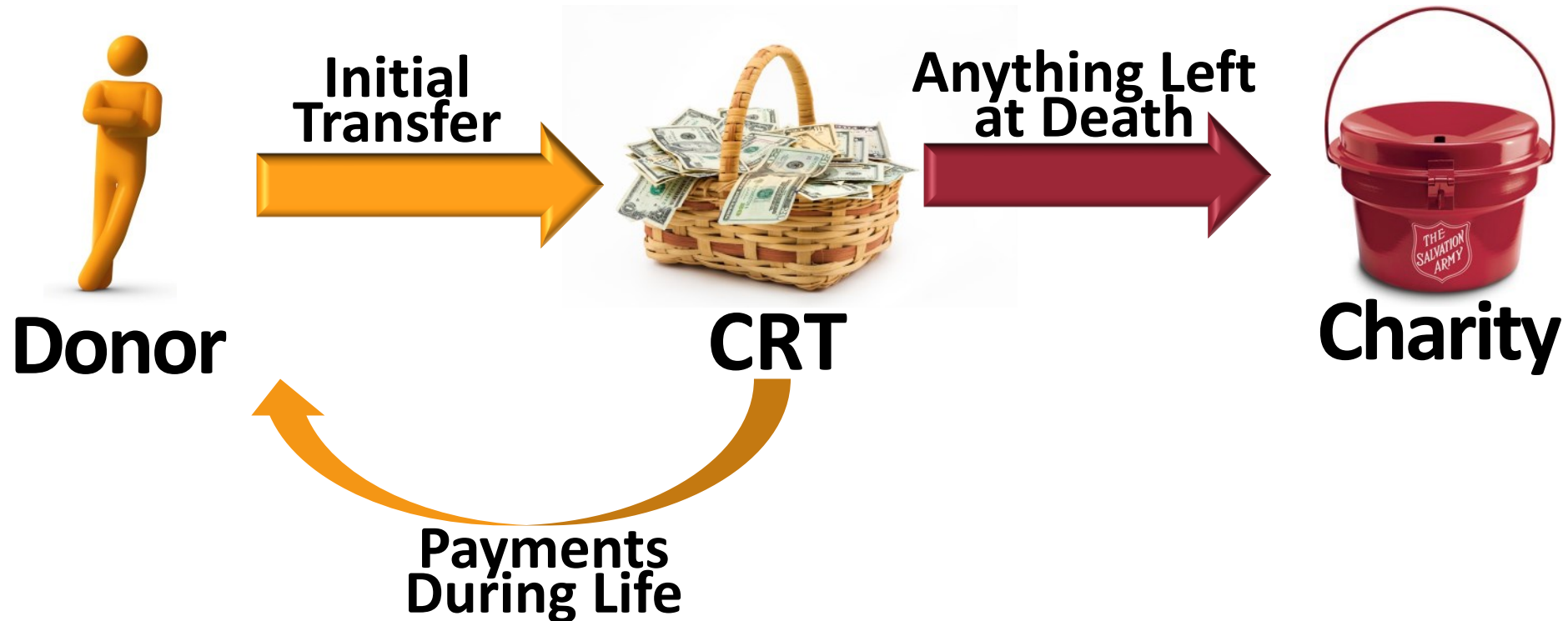
- **\$191,840 at 0.4% §7520 rate**
- **\$98,181 at 8% §7520 rate**

See [iclat.net](http://iclat.net)



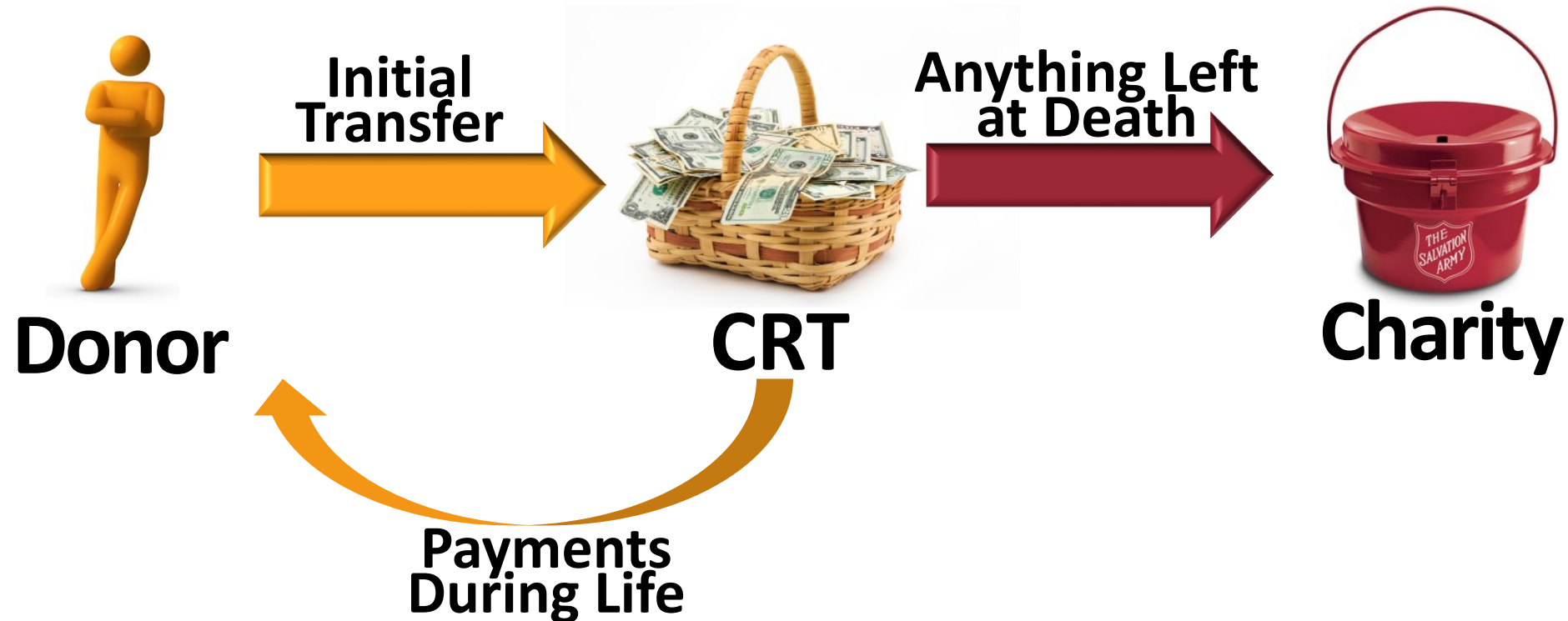
# Charitable Remainder Trusts

- 1. Avoid capital gains tax*
- 2. Get a tax deduction*



# Benefit of Charitable Remainder Trust

- Income with no upfront capital gains tax (less gain now)
- Tax deduction (CRUT no change, CRAT down)





# CRAT disqualified if >5% chance of exhaustion due to annuitant longevity

STEP 1: Using §7520 rate, at what age will the CRAT exhaust?

Using a financial calculator solve for n (number of time periods) after entering present value (initial CRAT assets), rate (§7520 rate), payments, and setting future value to 0. The underlying formula is

$$n_{PVA} = \ln \left[ \left( 1 - \frac{PV(r)}{P} \right)^{-1} \right] \div \ln(1 + r)$$

*n = number of periods*  
*PV = Present Value (of Annuity)*  
*r = rate*  
*P = Payment/Cash Flows*

STEP 2. Is there >5% chance the donor will live that long?

( $l_x$ @age-of-exhaustion /  $l_x$ @current-age, using Table 2000CM at [www.irs.gov/Retirement-Plans/Actuarial-Tables](http://www.irs.gov/Retirement-Plans/Actuarial-Tables) )

**Can draft around  
with Rev Proc  
2016-42. Pays out  
when hits 10% PV**



## Sale

\$1,000,000 asset  
-\$238,000 capital gains tax

## CRUT

\$1,000,000 asset  
\$0 capital gains tax

\$1,000,000 in 5% unitrust  
pays \$50,000 annually + a  
charitable tax deduction of  
\$300,000 worth \$120,000

## + ILIT

Client pays \$120,000 initially  
and \$10,000 annually for a  
\$400,000 ILIT-owned policy  
(including post-crummey gift taxes)

Client uses \$38,100/year  
(\$762,000 X 5% return)



Client uses \$40,000/year



Charity receives \$1,000,000  
remainder

Heirs receive \$457,000  
(\$762,000 - \$304,800 est. tax)



Heirs receive \$400,000  
(tax free from ILIT)

# A CRT increases AUM

- ↑ No upfront capital gains tax at sale
- ↑ Tax deferred growth (only distributions taxed)
- ↑ Immediate tax deduction
- ↑ Post-mortem management with DAF/PF beneficiary



# Retained Life Estate Deeds for Homes and Farmland



A remainder  
interest gives the  
right to own the  
property after a  
set time or after  
the death of a  
person

**OK,  
you can  
have my  
stuff now.**

**Charles A. Donor**



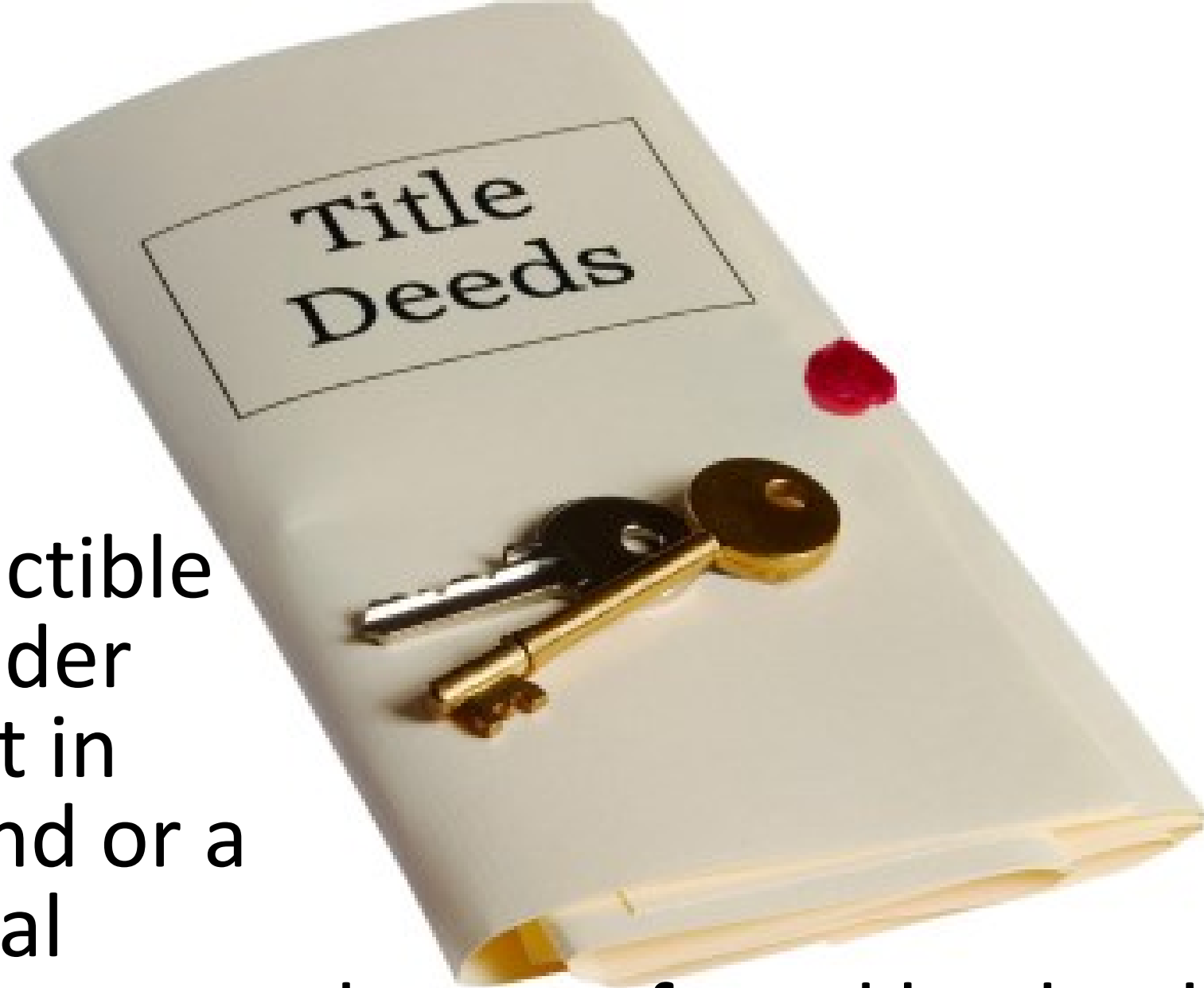


## Remainder Interest

Unlike a will,  
a remainder  
interest is not  
revocable,  
and can even  
be sold

A deductible  
remainder  
interest in  
farmland or a  
personal

residence must be transferred by deed,  
not by trust or contract



Charitable deduction for remainder interest deed with retained life estate in \$1,000,000 of farmland by age 55 donor

You can use the tax savings to buy life insurance for heirs who weren't going to farm anyway



11.6% (May 89)

**\$122,350**



0.4% (November 20)

**\$903,710**

1% = \$779,640  
2% = \$616,350  
3% = \$494,000



Leaving land to  
charity  
**by will**

- Revocable
- \$0 tax deduction
- Impacts charity after death



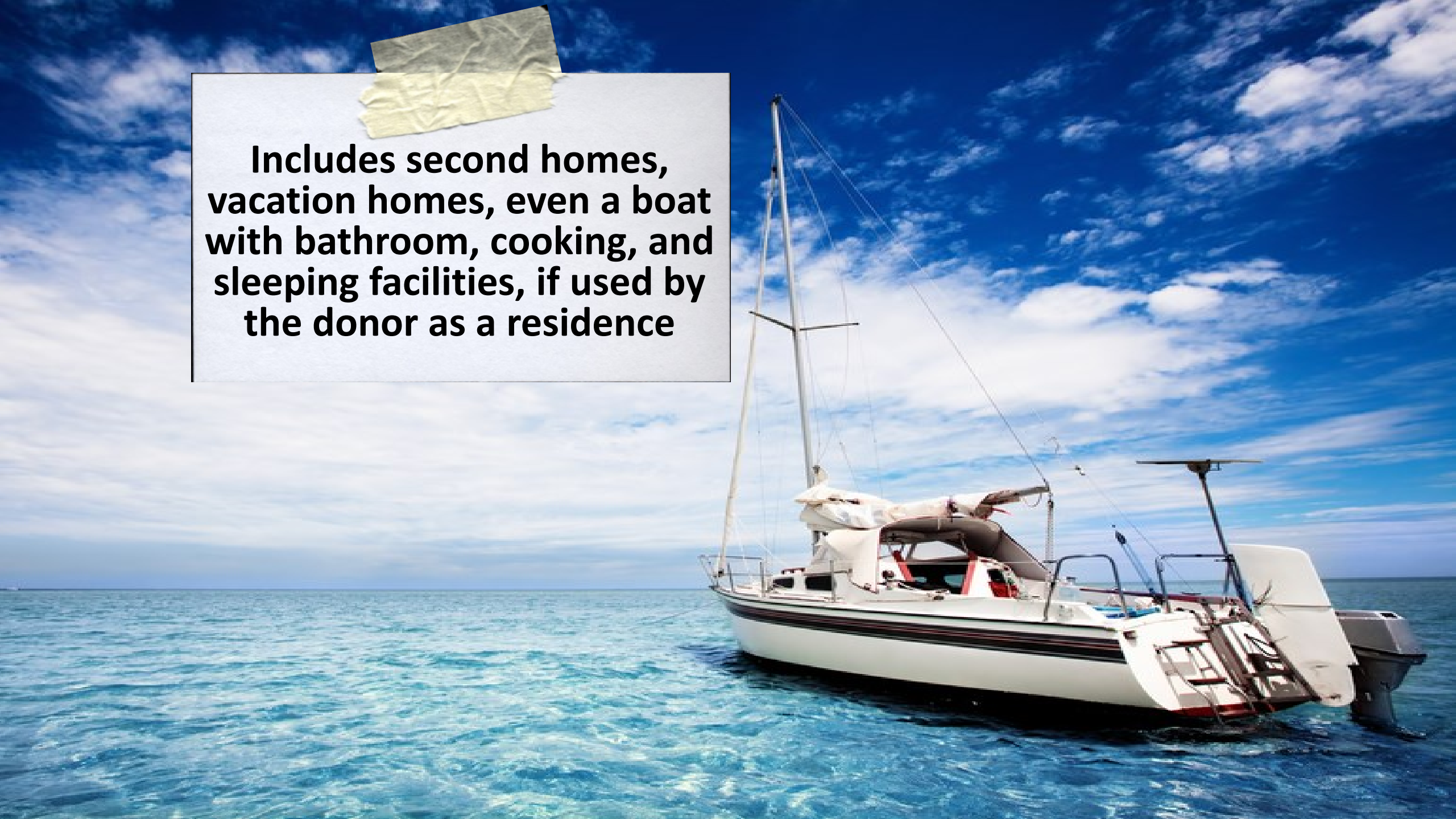
Leaving land to  
charity  
**by remainder deed**

- Irrevocable
- Immediate income tax deduction
- Impacts charity after death or immediately if charity sells remainder interest
- Immediately increases cash assets available for income producing investments



## Remainder Interest

Gifts of a remainder interest with retained life estate in the donor's personal residences can also be deducted



**Includes second homes,  
vacation homes, even a boat  
with bathroom, cooking, and  
sleeping facilities, if used by  
the donor as a residence**

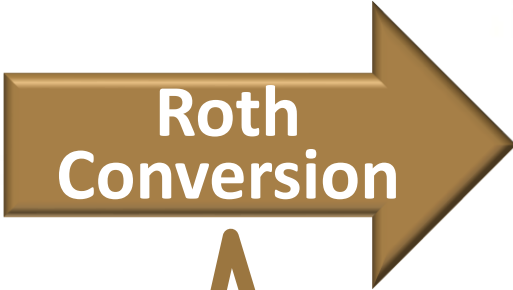
# For some, the benefits from giving even cash went up in 2018



1. 2017 charitable tax deductions reduced by 3% of income over \$261,500 [Pease limitation]
2. Higher state tax benefits with SALT caps
3. Income limits raised to 60%



**Taxable**



**Roth Conversion**



**Tax Free**

\$1MM in standard IRA (withdraws are taxable)

\$1MM in Roth IRA (withdraws are tax free and no owner RMD)

**Conversion creates \$1MM in immediate taxable income**

Accelerating a multi-year pledge by writing the check now can fit with a Roth conversion.

# Roth conversions and charitable planning can work together to match

**Income**



**Deductions**





1. The 20% deduction for business income phases out at higher *taxable income* levels
2. But charitable deductions reduce *taxable income*, and can thereby “bring back” the business income deduction from the dead
3. Double benefit: Charitable deduction + bringing back the phased out business income deduction

**Please connect with me  
on LinkedIn for more  
slides and videos!**



**Special Charitable  
Financial Planning  
Opportunities for  
February 2023**

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Russell James, J.D., Ph.D., CFP®  
Professor, Personal Financial Planning  
Texas Tech University