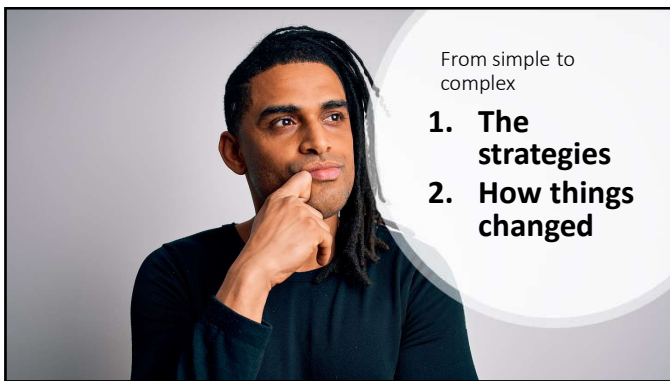




1

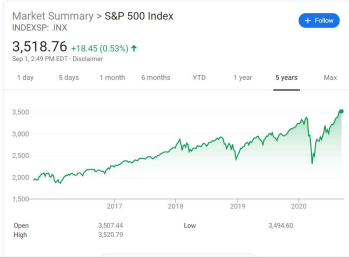


2



3

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



4

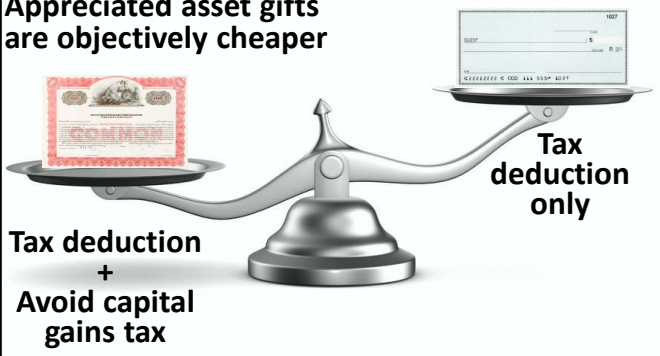
Not everything dropped even temporarily

- Gold TTM price: +28.5%
- NCREIF Farmland property index 2020 Annual Total +3.85%
- Walmart, Amazon, Pharmaceuticals, Clorox are also big winners so far









5

Appreciated asset gifts are objectively cheaper









6

Asset gifts are cheaper for itemizers

| | | | | |
|---|---|---|--|----------------|
|  |  |  | Income tax deduction (\$100,000 x 37%) \$37,000 | Costs \$63,000 |
| Donor | \$100k Cash | Nonprofit | | |
| <hr/> | | | | |
|  |  |  | \$37,000 + Avoid capital gains (\$90,000 x 23.8%) \$21,240 | Costs \$41,760 |
| Donor | \$100k Stock | Nonprofit | | |









7

Asset gifts are cheaper for non-itemizers

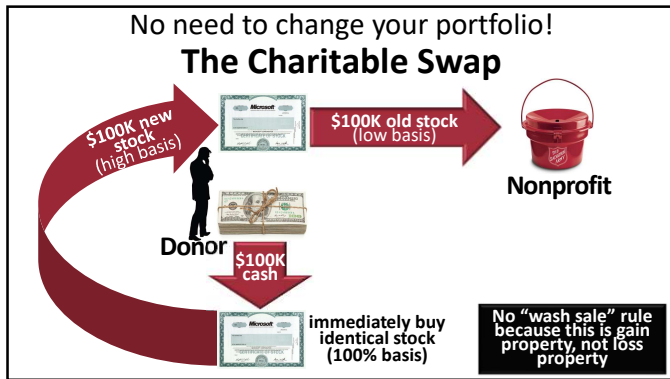
| | | | | |
|---|---|---|---|-----------------|
|  |  |  | Income tax deduction (\$100,000 x 37%) \$37,000 | Costs \$100,000 |
| Donor | \$100k Cash | Nonprofit | | |
| <hr/> | | | | |
|  |  |  | \$37,000 + Avoid capital gains (\$90,000 x 23.8%) \$21,420 | Costs \$78,598 |
| Donor | \$100k Stock | Nonprofit | | |

8

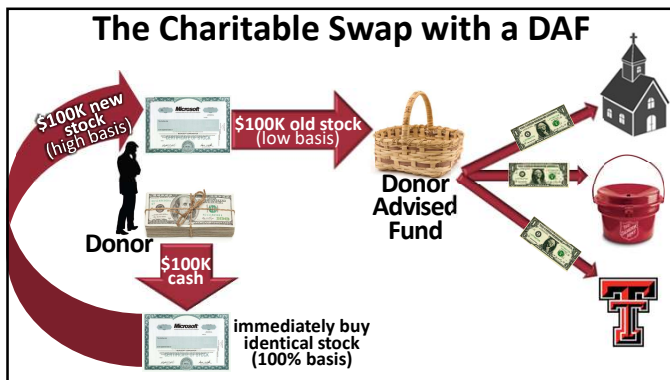
Asset gifts got EVEN cheaper for those in other states

| | | 2017 | 2018 |
|---|---|--|--|
|  |  |  |  |
| Donor | \$100k Cash | Nonprofit | Nonprofit |
| | | Income tax deduct. (\$100,000 x 39.6%) \$39,600 fed (\$100,000 x 11%) -\$100,000 x 4.36% | Income tax deduct. (\$100,000 x 37%) \$37,000 fed (\$100,000 x 11%) -\$100,000 x 4.36% |
| | | \$6,644 state | \$11,000 state |
| | | + | + |
| | | Avoid capital gains (\$90,000 x 23.8%) \$21,420 fed (\$90,000 x 11%) -\$90,000 x 4.36% | Avoid capital gains (\$90,000 x 23.8%) \$21,420 fed (\$90,000 x 11%) -\$90,000 x 4.36% |
| | | \$5,980 state | \$9,900 state |
| Net cost \$52,000 in '18 vs. \$53,756 in '17 | | | |
|  |  |  |  |
| Donor | \$100k Stock | Nonprofit | Nonprofit |
| Net cost \$20,680 in '18 vs. \$26,356 in '17 | | | |

9



10



11

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

12

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

13



How to talk about gifts of assets

14

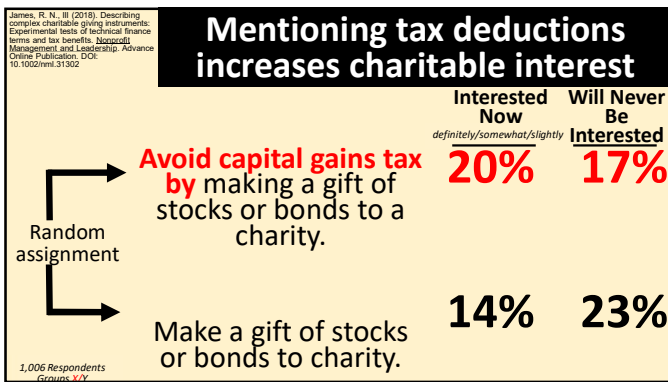


Should you mention tax benefits?

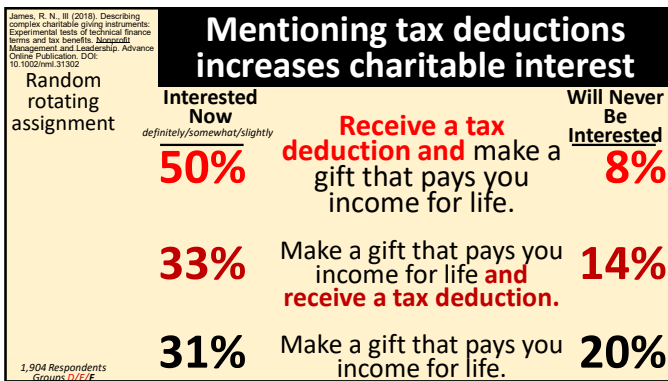
15



16



17



18

James, R. N., III (2018). Describing complex charitable giving instruments: Experimental tests of technical finance terms and tax benefits. *Nonprofit Management and Leadership, Advance Online Publication*. DOI: 10.1002/nlml.31302

Mentioning tax deductions increases charitable interest

| Random rotating assignment | Interested Now <small>definitely/somewhat/slightly</small> | | Will Never Be Interested |
|----------------------------|---|--|--------------------------|
| | 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. | 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% |

1,826 Respondents, Groups F/B/D

19

James, R. N., III (2018). Describing complex charitable giving instruments: Experimental tests of technical finance terms and tax benefits. *Nonprofit Management and Leadership, Advance Online Publication*. DOI: 10.1002/nlml.31302

Mentioning tax deductions increases charitable interest

| Random rotating assignment | Interested Now <small>definitely/somewhat/slightly</small> | | Will Never Be Interested |
|----------------------------|---|--|--------------------------|
| | 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. | 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% |

1,782 Respondents, Groups E/A/C

20

Best phrasing to describe tax benefits



21


| | |
|--|--|
| 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 |

22

| | |
|--|--|
| I might be/am definitely interested | Please rate your level of interest in clicking on the button to read the corresponding information. |
| 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 |

James, R. N., III (2016). Describing complex charitable giving instruments: Experimental tests of technical finance terms and tax benefits. *Supports Management and Leadership: Advance Online Publication*, 3(4), 10.1002/sml.31302

23



Accepting noncash gifts is safer today

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

24

Required Minimum Distributions are back for 2021, but you can still give up to \$100,000 with QCDs!

IRAs or IRA rollovers only; no 401(k), 403(b), SEP, SIMPLE, pension or profit sharing plans

Participant 70 1/2 or older

No private foundations, donor advised funds, charitable trusts, or charitable gift annuities

\$10,000

\$100,000 per person maximum

\$0 income \$0 deduction

25

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

\$7,000 of wife's earned income → Checking Account → \$7,000 Gift → Charity

RESULT:
An unusable itemized deduction

\$7,000 of wife's earned income → Wife's IRA → Husband's IRA → \$7,000 QCD Gift → Charity

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.

26

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

27




28

| IRA(child); House(charity) | IRA(charity); House(child) |
|---|---|
| <p>\$1,000,000 House \$1,000,000 to charity</p> <p>\$1,000,000 IRA -\$370,000 (37% federal income tax) -\$133,000 (13.3% California state income tax) \$497,000 to child</p> <p>SECURE now requires faster withdraw (10 years)</p> | <p>\$1,000,000 IRA \$1,000,000 to charity</p> <p>\$1,000,000 House -\$0 (no income tax) \$1,000,000 to child</p> |

29

Retirement plan charitable beneficiaries



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

30

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)



31

Simple solutions to a potential trap

Charities are not "designated beneficiaries", so could accelerate RMD's for other beneficiaries. Solutions:

- Separate IRAs into a 100% charitable and 100% non-charitable account before death (+ RMDs can be taken from either to match desired plans)
- Beneficiaries can separate accounts by end of year following participant death¹
- Payout charity share before September 30 of year following participant death.²
- If spouse is beneficiary, simply roll that share into spouse's IRA



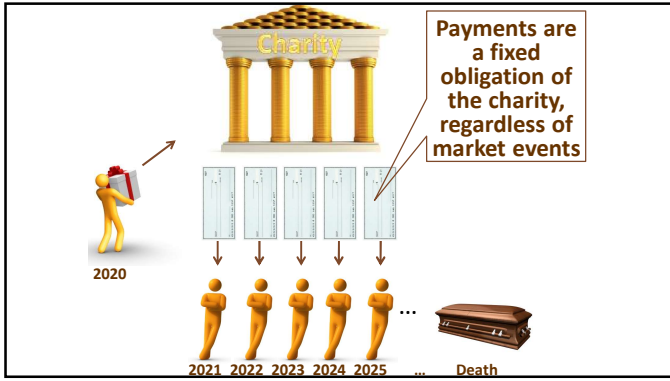
32

Charitable Gift Annuities



The hot new item?

33



34

| Example donor ages & rates | |
|---|------|
| July 2020, American Council on Gift Annuities | |
| 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% |


35

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


36




Large charitable gift annuity use increased following market volatility

A charitable remainder annuity trust backed by donor's initial investment



A charitable gift annuity backed by all assets of a large charitable institution

Yale University 

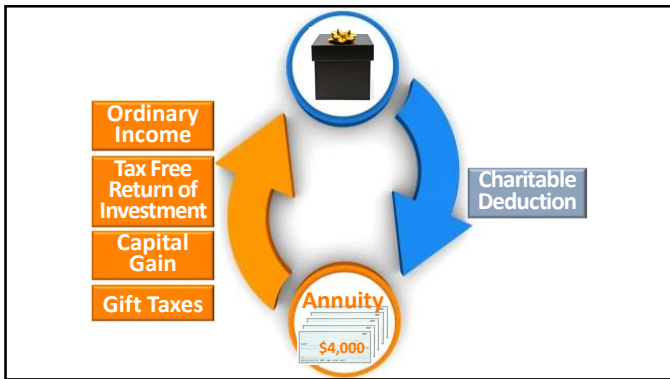
American Cancer Society  American Red Cross  

37

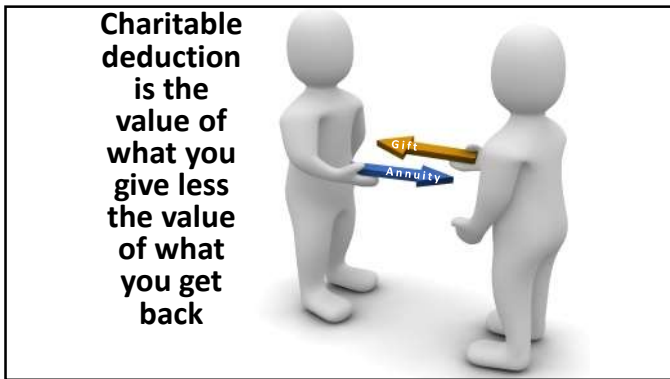
Taxation of Charitable Gift Annuities



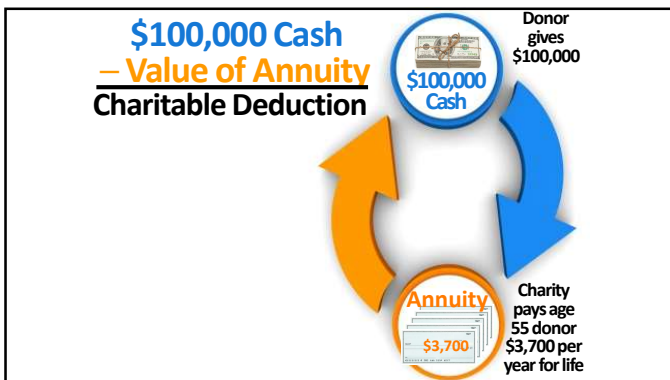
38



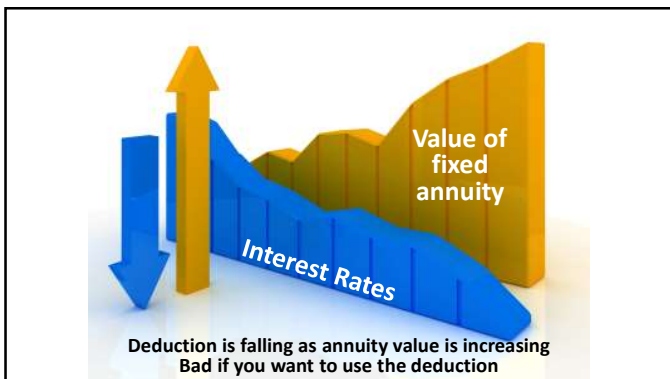
39



40



41



42

Section 7520 Rates

Feb '20 Rate: 2.2%
 March '20 Rate: 1.8%
 April '20 Rate: 1.2%
 May '20 Rate: 0.8%
 June/July, Dec '20, Jan/Feb '21 Rate: 0.6%
 Aug/Sep/Oct/Nov Rate: 0.4%

Suppose a donor, age 55, donates \$100,000 for a charitable gift annuity paying \$3,700 per year.
 The charitable deduction for that gift using the February rate is \$30,881.
 Using the May rate it is \$16,068.
 Using the November rate it is \$10,936.

43



New attraction to CGAs

If funded with cash, the income tax deduction can eliminate 100% of income in 2021. (Connect with me on LinkedIn for the full paper on this.)

If the donor can't use charitable tax deductions, lower interest rates are better for CGAs because a larger share of the annual payments will be considered as tax-free return of the original investment.

44

Gift of Cash for a CGA should qualify for 100% income limitation for 2020 extended in 2021

What is a "qualified contribution"? First, the taxpayer must elect this treatment for the gift. Also, the gift can't go to a donor advised fund or a supporting organization. Finally, a "qualified contribution" requires

(i) such contribution is paid in cash during calendar year 2020 to an organization described in section 170(b)(1)(A)

To break it down, a "qualified contribution" is a deductible "contribution,"

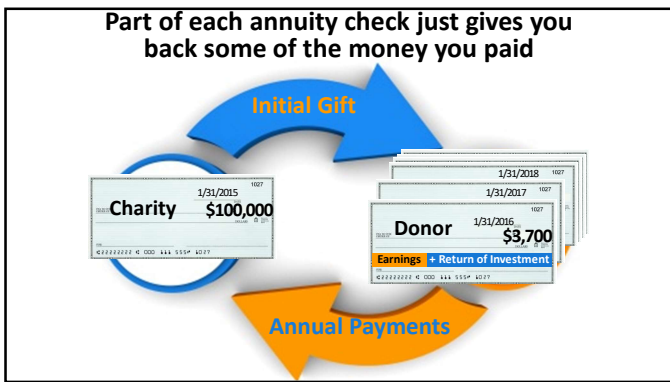
- "paid in cash"
- "during calendar year 2020"
- "to an organization described in section 170(b)(1)(A)" (i.e., a public charity).

45

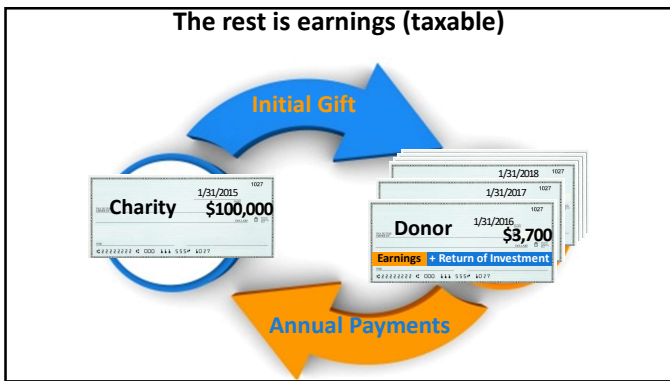
If the donor can't use charitable tax deductions, then the situation reverses

- The lower \$7520 rates are actually better
- because a larger share of the annual payments will be considered as tax-free return of the original investment.
- The original investment is the amount paid for the CGA less the charitable deduction.
- As the deduction gets smaller, the original investment gets larger.

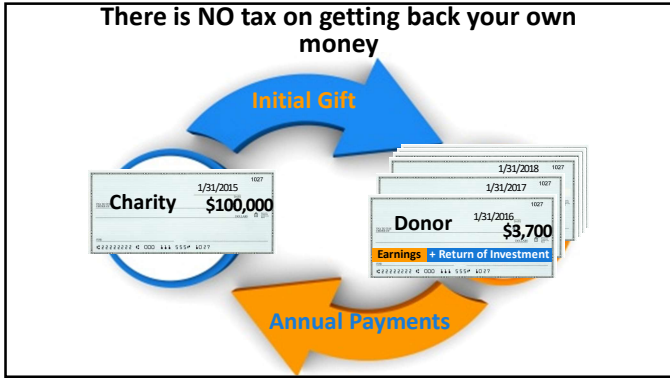
46



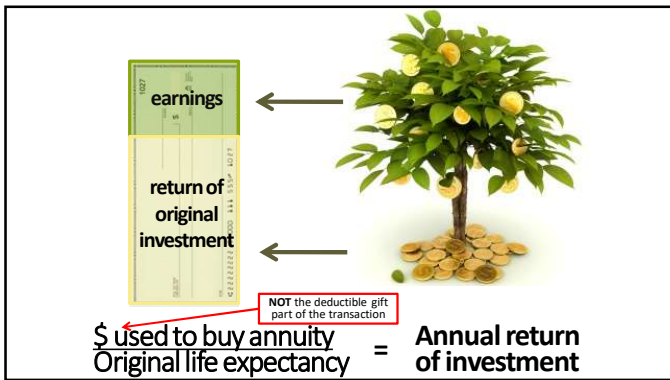
47



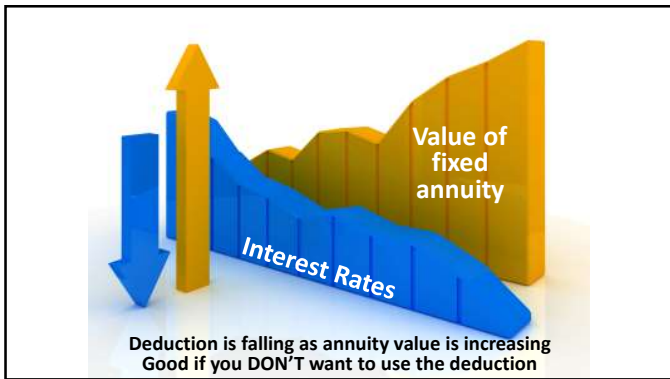
48



49



50



51

Testing Charitable Gift Annuity Ad Messages



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.

People like me do things like this

52

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

53

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

54

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: ___%

All: ___%

55+: ___%

55+: ___%

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%**

All: **31.1%**

55+: **38.6%**




55+: **29.8%**

56



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



57



| | | Interested now (definitely/somewhat /slightly) | | |
|---|------------|--|-------------|--|
| <p>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.</p>  <p>Gift Annuity</p> | <u>55+</u> | <u>35-54</u> | <u>U-35</u> | |
| | _____% | _____% | _____% | |
| | _____% | _____% | _____% | |
| <p>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.</p>  <p>Gift Annuity</p> | _____% | _____% | _____% | |
| <p>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.</p>  <p>Gift Annuity</p> | _____% | _____% | _____% | |

58

| | | Interested now (definitely/somewhat /slightly) | | |
|--|--------------|--|--------------|--|
| <p>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.</p>  <p>Gift Annuity</p> | <u>55+</u> | <u>35-54</u> | <u>U-35</u> | |
| | 24.4% | 38.4% | 44.5% | |
| | 22.0% | 47.4% | 32.6% | |
| <p>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.</p>  <p>Gift Annuity</p> | 41.1% | 30.6% | 30.2% | |
| People like me do things like this | | | | |

59

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

60

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...

61

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

62

Non-Grantor Charitable Lead Trust

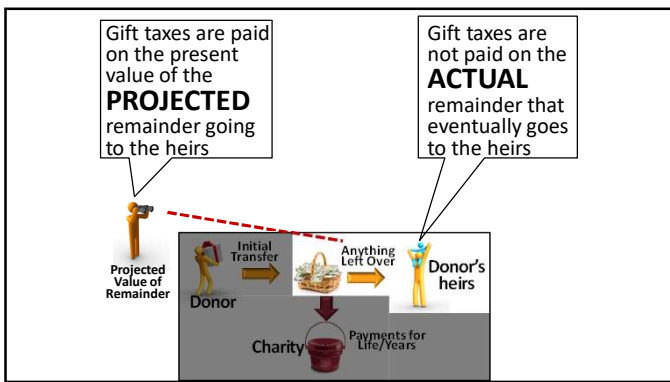
Donor gives money from which charity receives payments, with remaining amount going to family members



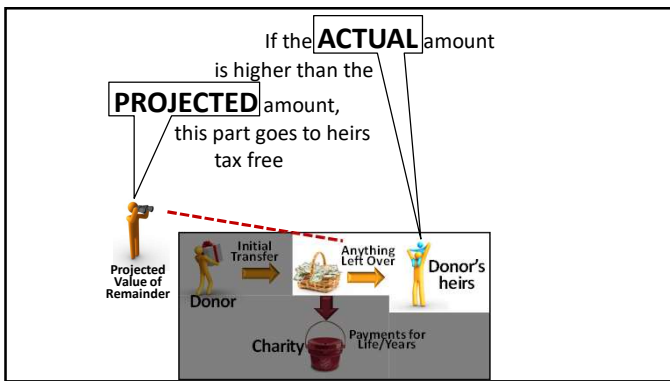
63



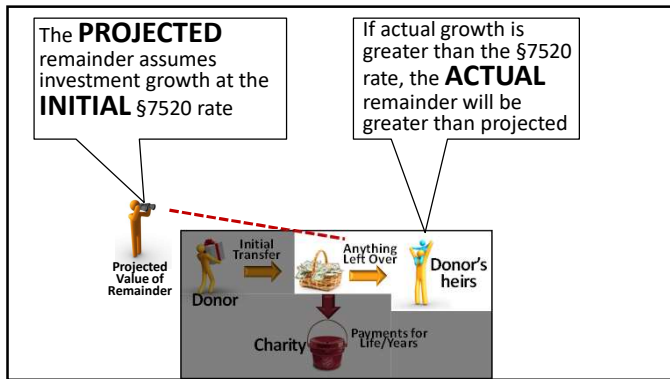
64



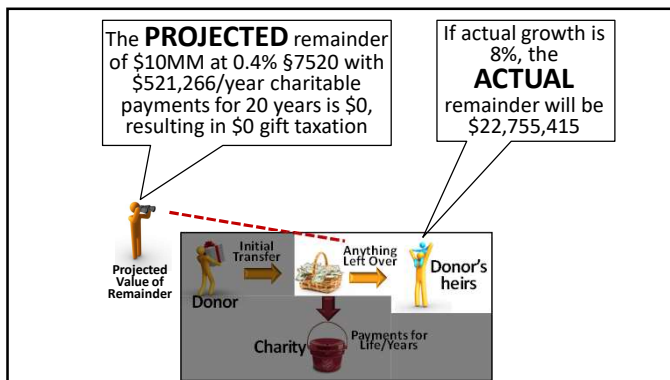
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66



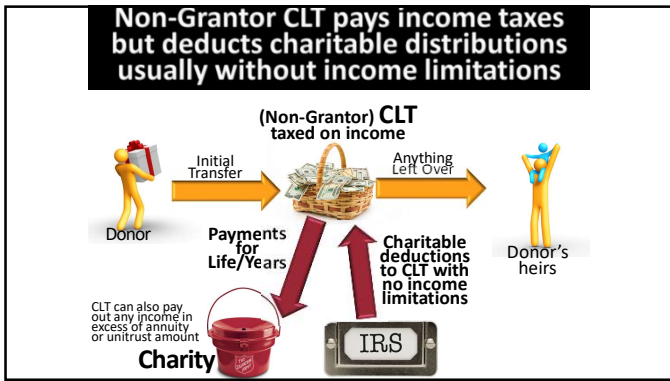
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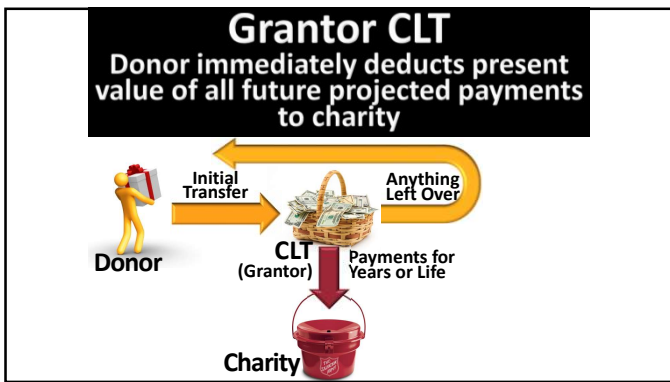
68

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

69



70



71

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

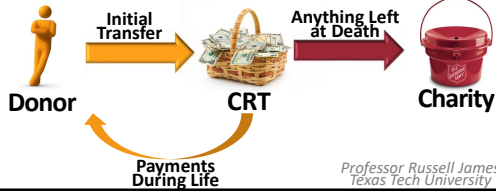
- **\$191,840 at 0.4%** §7520 rate
- **\$98,181 at 8%** §7520 rate

See iclat.net

72

Charitable Remainder Trusts

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



Professor Russell James
Texas Tech University

73

Gift of Cash for a CRT unlikely to qualify for 100% income limitation for 2020 extended to 2021

What is a "qualified contribution"? First, the taxpayer must elect this treatment for the gift. Also, the gift can't go to a donor advised fund or a supporting organization. Finally, a "qualified contribution" requires

(i) such contribution is paid in cash during calendar year 2020 to an organization described in section 170(b)(1)(A)

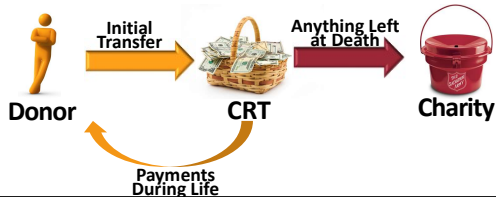
To break it down, a "qualified contribution" is a deductible "contribution,"

- "paid in cash"
- "during calendar year 2020"
- "to an organization described in section 170(b)(1)(A)" (i.e., a public charity).

74

Benefit of Charitable Remainder Trust

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



75

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


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

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

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

(lx@age-of-exhaustion / lx@current-age, using Table 2000CM at www.irs.gov/Retirement-Plans/Actuarial-Tables)

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




76

| | |
|--|---|
| <p>Sale</p> <p>\$1,000,000 asset -\$238,000 capital gains tax</p> | <p>CRUT</p> <p>\$1,000,000 asset \$0 capital gains tax</p> <p>\$1,000,000 in 5% unitrust pays \$50,000 annually + a charitable tax deduction of \$300,000 worth \$120,000</p> <p>+ ILIT</p> <p>Client pays \$120,000 initially and \$10,000 annually for a \$400,000 ILIT-owned policy (including post-mortem gift taxes)</p> |
| <p>Client uses \$38,100/year (\$762,000 X 5% return)</p> | <p>Client uses \$40,000/year</p> <p>Charity receives \$1,000,000 remainder</p> |
| <p>Heirs receive \$457,000 (\$762,000-\$304,800 est. tax)</p> | <p>Heirs receive \$400,000 (tax free from ILIT)</p> |

77

A CRT increases AUM

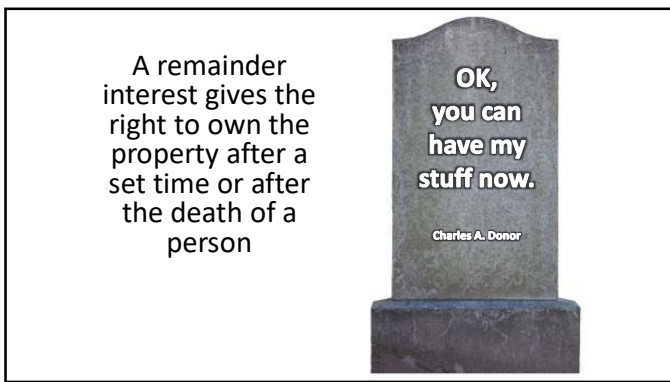
- ↑ No upfront capital gains tax at sale
- ↑ Tax deferred growth (only distributions taxed)
- ↑ Immediate tax deduction
- ↑ Post-mortem management with DAF/PF beneficiary



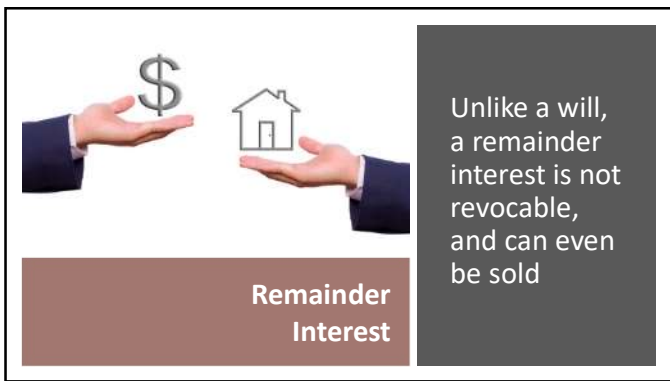
78



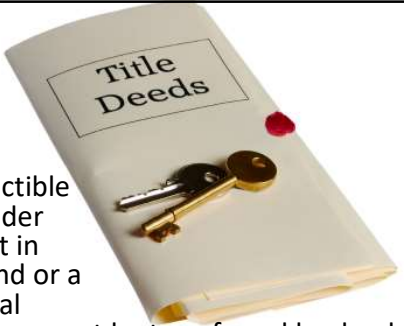
79



80



81



A deductible remainder interest in farmland or a personal residence must be transferred by deed, not by trust or contract

82

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



11.6% (May 89) **\$122,350**

0.4% (November 20) **\$903,710**


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

83

| Leaving land to charity by will | Leaving land to charity by remainder deed |
|---|---|
| <ul style="list-style-type: none"> • Revocable • \$0 tax deduction • Impacts charity after death | <ul style="list-style-type: none"> • 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 |



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Remainder Interest

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


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

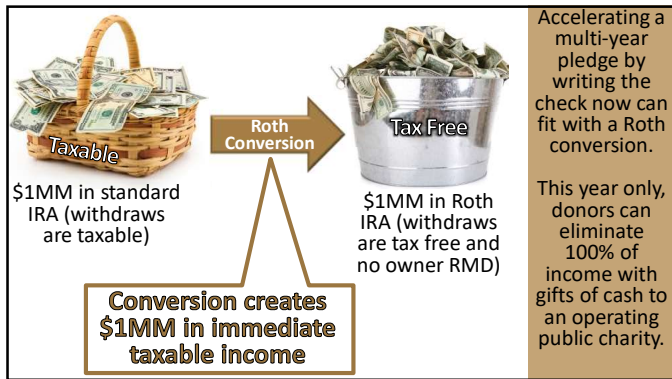
86

For some, the benefits from giving even cash went up



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% (2021 100%)
4. \$300 per person deduction for non-itemizers

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1. The new 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

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