

Taxes and Gift Planning – What You Should Know

WPGC Planned Giving Day
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Federal Tax System

- Income tax system
 - Income tax – ordinary income
 - Capital gains tax – profit on sale of capital asset
- Transfer tax system
 - Estate taxes – on transfers at death
 - Gift taxes – on gifts during lifetime

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Ordinary Income

- Wages, salary, tips
- Interest on investments (bonds, savings accounts, CDs)
- Rents
- Realized ordinary gain
- Other sources

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2023 Income Tax Rates

Rate	Married Filing Jointly	Single
10%	\$0 – \$22,000	\$0 – \$15,700
12%	\$22,001 – \$89,450	\$15,701 – \$59,850
22%	\$89,451 – \$190,750	\$59,851 – \$95,350
24%	\$190,751 – \$364,200	\$95,351 – \$182,100
32%	\$364,201 – \$462,500	\$182,101 – \$231,250
35%	\$462,501 – \$693,750	\$231,251 – \$578,100
37%	\$693,751 and over	\$578,101 and over

Brackets are adjusted annually for inflation

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Taxable Income

	Gross Income	
Minus	Adjustments to Income	
Equals	Adjusted Gross Income (AGI)	
Minus	Certain items – including charitable contributions – may be deducted, but only if total exceeds the "standard deduction" amount (in 2023: \$27,700 married filing jointly, \$13,850 individual)*	
Equals	Taxable Income	

*Amounts adjusted for inflation each year

Note:
Add another \$1,500 for taxpayers over age 65. A married couple, both age 65 filing jointly, has a \$30,700 standard deduction.

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Effective Tax Rate vs Marginal Tax Rate

Taxable income \$250,000, married filing jointly:

Taxable Income	Tax Rate	Tax Due
the first \$22,000	10%	\$2,200
the next \$67,450	12%	\$8,094
the next \$101,300	22%	\$22,286
the last \$59,250	24%	\$14,220
Total: \$250,000		\$46,800

Marginal Tax Rate = 24%
Effective Tax Rate = 19%
(47k/\$250k)

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After-tax Cost of a Gift

After-tax Cost of Giving	
	Value Contributed
Minus	Taxes Saved or Avoided
Equals	Cost of Giving

Key points:

- Charitable deductions reduce taxable income, which saves taxes at the *highest marginal rate*
- Currently only around 10% of taxpayers itemize

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Capital Gain

- Capital gain = profit on sale of capital asset
- What is a capital asset?
 - Securities
 - Real Estate
 - Collectibles (art, antiques, stamps, etc.)
 - Other tangible personal property (cars, furniture, etc.)

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Capital Gains Tax

- Long-term capital gain: held more than one year
 - Taxed at preferential rates: 15% or 20%
- Short-term capital gain: held one year or less
 - Taxed at ordinary income rates: up to 37%
- Can exclude up to \$250,000 of gain (\$500,000 married filing jointly) on sale of principal residence – some restrictions apply

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After-tax Cost of a Gift

Assume a donor in the 24% tax bracket is considering a contribution of \$10,000 either in cash or in appreciated securities with a cost basis of \$2,000 (\$8,000 gain)

	Cash	Securities
Contribution	\$10,000	\$10,000
Income taxes saved	2,400	2,400
Capital gains taxes avoided	- -	1,200
After-tax cost of gift	\$7,600	\$6,400

Key Point: The capital gains tax savings applies even if the donor does not itemize.

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Capital Gain with Life Income Gifts

- Gift annuity
 - Capital gain associated with gift is forgiven
 - Capital gain associated with annuity interest is reportable ratably over life expectancy if donor is also annuitant
- Charitable remainder trust
 - Tiers of income
 - Capital gain taxed as it is distributed
- Capital loss assets should be sold and proceeds given

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Capital Gains Tax – Washington

- Effective January 1, 2022
Upheld as constitutional in March 2023 by WA Supreme Court
- Tax rate 7%
- Applies to long-term capital gains *allocated* to Washington
- Key exemptions: real estate, retirement accounts
- Annual standard deduction: \$250,000 (single or married)
- Charitable deduction:
 - Only for donations over \$250,000
 - Capped at \$100,000
 - Gift to organization "principally directed or managed within the state"

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- Official name: Net Investment Income Tax (NIIT).
- Surtax is imposed on lesser of:
 - net investment income (capital gains, interest, dividends, royalties, rents, etc.) or
 - amount by which Modified AGI (MAGI) exceeds the applicable threshold (\$200K for Single, \$250K for MFJ)
- Increases marginal rates for income tax and capital gains tax by 3.8%

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- 60% of AGI – maximum deduction in any one year for cash contributions
- 30% of AGI – maximum deduction for contributions of appreciated property
- 5-year carryover for unused deductions
- Gifts to private foundations subject to lower limits: 30% cash, 20% appreciated property

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- Amount of deduction is reduced by value of goods or services *made available* as a result of contribution
- Applies to all premiums offered as a result of contribution as well as “benefit” events
- Must be disclosed in solicitation
- Applies if goods or services are offered – *whether or not they are accepted*

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Substantiation Requirements

- Donors must have written acknowledgement to substantiate income tax charitable deductions
- Non-cash gifts
 - \$500 or less – estimate value on Schedule A
 - \$501 through \$5,000 – estimate value, complete Form 8283 explaining valuation methodology*
 - Over \$5,000 – qualified appraisal, complete Form 8283 with charity acknowledgement

** Deductions over \$500 for contributions of clothing require appraisal*

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Split Interest Deductions

- Donor makes irrevocable contribution but retains right to receive income (CGA, CRT)
- Deduction is for amount contributed minus the estimated value of the right to receive income
- Larger deductions: older and fewer beneficiaries, smaller payouts
- Smaller deductions: younger and more beneficiaries, higher payouts
- Charitable gift annuity: deduction and tax-free portion of payments are inversely related

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Date of Gift

Year in which the deduction can be taken depends upon date of gift – generally when the donor irrevocably surrenders control of the gift

By mail	Postmark date
Delivered	Date delivered
Credit card	Date charge authorized
Electronic transfer	Date completed by bank
Physical securities	Date delivered in negotiable form
Brokerage account	Date entered into charity's account

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Qualified Charitable Distributions

- Must be from an IRA
- Donor must be at least 70 1/2
- Distribution direct to charity (*Check-writing privileges*)
- No deduction, but not taxable (*Great for non-itemizers*)
- Can be applied to required minimum distribution
- No *quid pro quo*
- Annual limit \$100,000

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Qualified Charitable Distributions

- Funding a gift annuity or charitable remainder trust:
 - Same general requirements as for outright QCD (*prior slide*)
 - Only in one tax year, up to \$50,000 (*counts as part of \$100k annual QCD limit*)
 - Beneficiaries limited to IRA owner and/or owner's spouse
 - Payout rate must be at least 5%
 - QCD must be only funding asset
 - Income interest must be non-assignable
 - Gift annuity payments must start within 1 year (*no deferred CGAs*)
 - Life income payments are ordinary income

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Transfer Taxes: Federal Gift Tax

- Tax paid by the giver
- Annual gift exclusion: \$17,000 per individual
- 18% - 40% rates on taxable transfers
- Lifetime exclusion: \$12.92 million tax free (in 2023)
 - Cumulative total of lifetime gifts plus gifts at death
 - Unlimited exclusion on transfers to spouse
 - Unlimited charitable deduction
- Carryover basis to recipient

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Transfer Taxes: Federal Estate Tax

- Tax paid by the estate
- Lifetime exclusion (\$12.92M) adjusted annually
 - Cumulative total of lifetime gifts plus transfer at death
 - Unlimited exclusion on transfers to spouse
 - Unlimited charitable deduction
 - Portability of spouse's unused exemption
- 18% - 40% rates on taxable estates (affects less than 0.2%)
- Step-up in cost basis to beneficiaries

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Estate Tax - Washington

- Filing threshold and applicable exclusion: \$2,193,000
- Other expenses/deductions in determining taxable estate:
 - Funeral expenses
 - Estate administration costs
 - Debts of decedent
 - Bequests to spouse
 - Gifts to charity
 - Farm deduction
 - Qualified family-owned business interests deduction
- Tax rates 10% - 20%

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What Happens After 2025?

- Many provisions of the 2017 Tax Cuts and Jobs Act expire at end of 2025. Among the looming changes:
 - Income tax rates revert to 2017 levels (top rate of 39.6%)
 - Standard deduction reduced by about half (2017: \$6,350 single, \$12,700 MFJ)
 - Personal exemption returns
 - Estate tax exemption cut in half (est. at \$6.2M for 2026)
 - Cap on state and local income tax deduction eliminated

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Have a Question?

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