IJ LIVE Call: Making Your Charitable Dollars Go Further
Thursday, August 30, 2018
4:00-4:30 pm ET

Introduction: Caitlyn Healy welcomes callers and introduces Melanie Hildreth and Rob Peccola. Melanie is IJ's Vice President for External Relations and director of the Institute's Four Pillars Society, which honors those supporters who have provided for IJ in their estate plans. Rob is an IJ attorney who spent five years as a probate litigator dealing with estate administration and fiduciary litigation.

Purpose of call: To provide IJ supporters with ideas you may want to incorporate into your planning that can help you give more money to charities like IJ while also reducing your tax burden. The conversation is in light of the 2017 tax law.

* Note that it's a good idea to keep your personal financial or legal advisors in the loop, because they will have important insights based on the details of your situation and the laws of your particular state. At the same time, to help ensure your wishes are met, please tell us your plans!

Consider IRA Charitable Rollover Gifts—left untouched by the new law

- When you turn 70½ you're required to take a minimum distribution from your IRA. This money has been growing tax free and now the government wants "its share"!
- This distribution adds to your taxable income for the year you take it and goes up every year.
- There is an IRS table that determines the minimum distribution amount based on life expectancy, and your investment or annuity company will often calculate it for you. Charles Schwab and Vanguard also have online calculators where you can get an estimate.
- If you don't need all or part of the income, you can make what is known as a qualified charitable distribution (QCD). A QCD allows 100 percent of your IRA money to go to a qualified charity like IJ, which isn't required to pay tax on the donation. And these gifts aren't limited to your required minimum distribution—you can give up to $100,000.
- You can make a QCD and claim the standard deduction, but you cannot take a charitable deduction for an IRA Rollover Gift if you do itemize—the primary tax benefit of these gifts is not having to recognize additional income.
- IRA Rollover Gifts are easy to make. Just write to your IRA administrator and tell them you want to make an IRA Charitable Transfer. Give them the account number, the amount you want to donate, and the name, address, and tax ID of the charity. For those interested, we offer a sample letter at ij.org/IRA-gifts.
- Unfortunately, IRA rollovers cannot be used to fund donor advised funds or charitable gift annuities (more on those below).

Know the importance of naming a beneficiary of retirement and other accounts

- It is worth completing a beneficiary designation form for your retirement accounts, checking accounts, savings accounts, and so on. Different institutions will have different default beneficiaries. The tax impact between different beneficiaries can be dramatic, and if you leave it up to the account administrator to select the beneficiary, the money may not go where you want!

- If you know you want to include charitable beneficiaries in your estate planning, retirement and other tax-deferred assets are particularly good candidates because the charity will not have to pay taxes, and the full value of the account goes to a cause you care about. Your estate also receives a tax deduction for the charitable contribution, which can be used to offset estate taxes.
- Beneficiary designations are key to ensuring that these accounts avoid the drawn out and sometimes contentious probate process. Avoiding probate speeds the distribution of assets to the person or organization you wish to receive them.
- Up to 40 percent of traditional IRA and 401(k) assets could go to the government by way of federal and state income taxes. Not to mention, if the owner's estate is large enough, the retirement assets could also be subject to a federal estate tax and a state estate tax. By designating IJ as a beneficiary, you could avoid up to four levels of taxation—and 100 percent of your money will go to fighting government overreach.

Donors with financial flexibility may want to consider a donor advised fund

- The new tax law essentially doubled the standard deduction for individual and joint filers to $12,000 and $24,000 respectively. (Filers who are 65 and over can also claim an additional $1,300/$2,600.)
- One of the most common ideas for smart giving in light of the deduction change is to "bunch" donations. Donors can still itemize by giving an amount over the standard deduction to a donor advised fund to be distributed in subsequent years.
- A donor can pre-fund charitable giving in their donor advised fund. Let's say they give $50,000 in 2018—distributions of which go to IJ over several subsequent years, $10,000 a year for the next five years. The donor takes the large deduction for the first year, and then the standard deduction for subsequent years.
- Though all donor advised funds have similar tax benefits, they are not all created equal. There are institutional funds like Fidelity and Schwab, which are relatively agnostic about where donors recommend grants. There are also community foundations specifically geared toward benefiting particular community needs, like the Greater Cincinnati Foundation. For those of us in the free market movement, DonorsTrust is set up to emphasize recommendations to organizations that work for limited government, free markets, and individual liberty.
- It is helpful for charities to know a grant came from you. A donor advised fund will only give out your name if you authorize it to, so if you want IJ to know you're current in your giving and not send you too many reminders to donate—or if you want to take advantage of the benefits of being a member of the Partners Club—please let us know a donation is from you!
- Stay abreast of regulatory changes and the policies of your donor advised fund. For instance, some will make grants in your stead if too many years go by without a recommendation from you.

Giving appreciated assets makes even more sense post tax reform

- One way to fund a donor advised fund is with appreciated assets.
- Donating appreciated assets can avoid capital gains taxes. And these assets are better gifts than ever because of the new tax law's $10,000 cap on writing off state and local taxes—including state capital gains taxes.
- Giving appreciated stock will allow you to avoid up to 30 percent in state and federal capital gains, take a charitable deduction for the current value of the stock, and still have cash on hand to invest as you wish.

Charitable gift annuities can be funded with appreciated assets to provide income for life and reduce taxes

- If you are not in a position to donate the full value of the appreciated assets, one good option for turning them into cash while minimizing your tax liability and making a charitable gift is to use them to fund a charitable gift annuity (CGA).
- A charitable gift annuity is a simple contract between a donor and IJ. Donors make a gift to IJ and IJ makes payments back to the donor for life. The mechanics are similar to annuities at a financial institution, but the payout rates are lower because they're set with the goal of leaving some of the principle contribution for the charity. Tax benefits include both an income tax deduction and deferred capital gains.
- IJ offers gift annuities for donors who are 65 or older.
- CGAs can also be created to benefit someone else—providing supplemental financial support for aged parents, children, or anyone else they would like to benefit.

Limited-time challenge grant: the Bernard and Lisa Selz Legacy Challenge

- Now through December 31, 2018, telling us about any provisions for IJ in your will or with a beneficiary designation also qualifies for matching funds for IJ through the Bernard and Lisa Selz Legacy Challenge. Bernard and Lisa will make a donation now worth 10 percent of your pledged gift's value—up to $25,000 dollars. Taking advantage of that is definitely smart planning!
- A link to the secure online form can be found here. The Matching Form notifies us of your best, good-faith estimate of the current value of your gift for the purpose of calculating matching funds. It is not a legally binding pledge, and we will keep the information you provide strictly confidential.

Importance of planned giving from a litigation perspective

- It is important that IJ has the financial resources to see through the cases and commitments to our clients.
- IJ has taken on bigger class action cases, representing tens of thousands of people. These cases are large in every sense—they can go on for years and require extensive attorney resources.
- Planned giving is critical to this part of IJ's mission—just as IJ is committed to making a long-term impact, our donors' commitment to IJ as a long-term investment is critical.

<u>Information from call Q&A</u>

Q: Phil in Washington, D.C.:

Regarding the 2017 tax law, is there anything new (other than the delightful change in the AGI limit to 60 percent)?

A: (Rob):

The 60 percent AGI limit is delightful indeed. When you donate cash to a public charity like IJ, you can now deduct up to 60 percent of your adjusted gross income—up from 50 percent prior to the new law. Keep in mind, however, that this only applies to cash—the AGI limitation on gifts of appreciated property for example will remain 30 percent of AGI.

(Melanie):

With respect to charitable giving, the biggest changes are that overall tax rates went down, which hopefully leaves more people with more money available for things they choose to spend it on, including charitable giving. And we already talked about the changes to the standard deduction.

In addition:

- The law retains the gift tax, estate tax, and generation skipping taxes at a top tax rate of 40 percent, but estates will still be entitled to an unlimited estate tax deduction for charitable gifts.
- The "basic exclusion amount" for the federal estate tax was doubled from $5 million to $10 million. The $10 million is then adjusted for inflation as well as a new cost-of-living adjustment, bringing it to about $11.2 million.
- The law repeals the "Pease" limitation, which reduced the value of itemized deductions for high income taxpayers.
- The 80 percent charitable deduction for college athletic event seating rights was repealed.

Q: Tom in California:

Can you clarify the link between IRA Charitable Rollovers and required minimum distributions? Are you saying that you can do a rollover in lieu of a distribution? Or does doing a rollover reduce the balance in your account so the distributions are now smaller?

A: (Melanie):

You can do rollovers in lieu of a distribution. We linked them in the call because realizing you need to take that mandatory distribution but don't actually need the income is often something that prompts people to consider a rollover—they can make a gift and avoid adding to their taxable income when they don't need to. But the two aren't actually tied together. Once you turn 70½ you can transfer as much as you want, up to $100,000, to make a qualified charitable distribution. Alternatively, you can use the rollover to satisfy only part of the required distribution.

Q: Jim in California:

I expect much of my estate will go to charity. If I sell my house, I will have a very large capital gain tax to pay on it. Is there any reasonable way I could get some or all of my money out of the house without triggering a capital gain? If it is possible, would I have flexibility in designating and perhaps changing (over time) the charities that receive donations?

A: (Rob):

You can often fund donor advised funds with assets that aren't cash. Schwab Charitable, for instance, has information about funding an account there with everything from privately held business interests to IPO stock to real estate.

In fact, using those non-traditional kinds of gifts to fund a donor advised fund and then recommending a grant to IJ is a great way to benefit us, or other smaller charities, while also helping to keep our administrative costs low. Those big institutions are well positioned to deal with the gift with much lower transaction costs than IJ would incur if handling a direct gift of something like real estate. In most cases you'll get the same tax benefits in terms of avoiding capital gains and being eligible for an immediate charitable deduction.

Q: Gary (via email):

Over the past few years I've had to pay taxes according to the Alternative Minimum Tax. I believe this year may be different because of the recent tax law changes, but I don't know for sure. Do you know of any calculators or tax software that will be available in 2018 that I could use to get an idea of the impact of the AMT this year?

A: (Rob):

The 50-year-old Alternative Minimum Tax was originally targeted at under 200 wealthy individuals paying little taxes because of sweeping deductions—it is now parallel tax system in addition to the regular tax system with fewer deductions for what the government deems high earners—though two-thirds make only between $200,000 and $500,000.

I spoke with a friend who is a principal at a large accounting firm about this one. The regime remains in place, but the good news is there are higher exemptions and the charitable deduction is still allowed! Unfortunately, the online programs he looked at were copyrighted before the new tax law. At this point it would be best to have a tax professional run calculations. They would need to see the 2017 tax compliance and get a better understanding of your 2018 income/filing positions.