

Year-End Planning

Where Local Good Grows

Hendricks County Community Foundation

Strategies for Giving and Saving Taxes

Year-end planning is a ritual for people who coordinate their tax planning with their charitable giving. Anticipating the end of the year takes on additional significance as we adjust to ever-changing tax laws and shifting financial markets. Completing a gift by December 31 can help you reduce your tax bill for this year while making a difference for future generations. Let's look at some ideas that can be important to year-end planning.

Cash Gifts and Tax Savings

Cash is still king—it's the simplest and most popular type of charitable gift. When you itemize deductions, a cash gift is deductible up to 60% of adjusted gross income (100% in 2020). Your actual tax savings depends on the amount of your gift as well as your marginal income tax bracket.

More Savings with Gifts of Appreciated Stock

You can also make gifts to us with appreciated stock or mutual fund shares (held for more than one year) and enjoy even greater tax savings. When you itemize, you receive an income tax charitable deduction for the full fair market value of the shares and you also avoid capital gains tax on the appreciation, even when the gain has never been taxed. By leveraging an untaxed gain to generate tax deductions, you substantially reduce the tax on your reportable income.

> **EXAMPLE:** Robert owns long-term appreciated stock purchased for $1,000 but now valued at $5,000. If he sells the stock, he will incur a capital gains tax of $600 on the $4,000 gain—$4,000 x 15% capital gains tax rate. Instead, Robert chooses to use the stock to make a gift to us. Because he itemizes, he enjoys a deduction for the full fair market value of the stock ($5,000). In his 35% tax bracket, he saves $1,750 and avoids the $600 capital gains tax liability. Therefore, the net cost of his gift is only $2,650 ($5,000 - $1,750 - $600) compared to $3,350 for a cash gift of $5,000.

Because the tax law rewards gifts of long-term appreciated property, you actually can have a greater impact with your gifts at a lower cost.

Note: Your deduction is limited to 30% of your adjusted gross income (AGI). When your deduction exceeds the 30%-of-AGI limitation, you may carry over your excess deduction for up to five years.

Gifts That Increase Income

Life income gifts are gift arrangements that pay you an income, provide immediate tax savings, and ultimately leave a gift that will have an important impact on our programs.

One of the most popular life income gifts is a charitable gift annuity. In exchange for your gift, we promise to make fixed payments for your lifetime and you qualify for an immediate income tax charitable deduction.

Another plus: they are easy to set up. You can get started simply by calling our office. In fact, gift annuities are so popular that many of our donors have more than one. A gift annuity can provide you with an excellent opportunity to make a deductible year-end gift and receive a welcome boost to your retirement income.

Long-Term Opportunities

Let's look at some additional long-term gift planning ideas that merit special attention.

A gift in your will. As you plan for loved ones, you may want to include a gift in your will for a charity that can make a difference. You can leave:

- A specific dollar amount or specific property
- A percentage of your estate
- What's left of your estate after other bequests, taxes and settlement costs are satisfied

Beneficiary designations. You can name us as the beneficiary of a living trust, life insurance policy or retirement plan account. Retirement plan assets in particular can pose tax problems for heirs, while other savings and investments can be transferred to heirs with no additional tax—and sometimes even with a step up in basis. A planned gift to us, however, can reduce or eliminate these taxes on retirement assets and, at the same time, provide more for family members by allowing other assets to transfer free of tax.

Other life income plans. In addition to a charitable gift annuity, you may want to consider a charitable remainder trust. Both of these unique planning tools give you the opportunity to realize a wide range of long-term objectives, such as supplementing your retirement income or providing for a dependent relative.

TAX-WISE TIPS FOR YEAR-END GIFTS

Gifts by Check or Credit Card

When you write a check to us and mail it by December 31, you can deduct it this year, even if we don't cash it until next year. When you charge your gift to a credit card, you can deduct the gift in the year you make the charge.

Pledges and IOUs

If you make a pledge to charity or give an IOU, you can only deduct this as a charitable contribution in the year you actually satisfy the pledge or pay off the note.

Gifts of Stock

You can make a gift of stock by electronic transfer or by delivery of the actual stock certificate to charity in person or by mail. Ownership of the stock certificate is changed to the charity on the books of the corporation issuing the stock.

Gifts of Appreciated Property

We already discussed the benefits of gifts of appreciated stock—you can generally deduct the full value of the contributed property (subject to the 30%-of-AGI limitation) even though the gain has never been taxed. Keep in mind that this applies to all appreciated property, including stocks, bonds, mutual funds, real estate and, in some cases, collectibles.

Option for Loss Property

"Loss property" is property that would generate a tax-deductible loss if you sold it. If you gave this property to charity, you would lose your deduction for the property's loss in value. Instead, consider selling the property, taking the loss as a deduction, and using the proceeds to make your deductible charitable gift.

Sponsored Gifts

If your employer offers a matching gift program, multiply the impact of your gift simply by requesting the match from your employer.

Note: Deductions are available if you itemize your tax return.

Fast Facts about Popular Charitable Giving Options

Outright gift of cash. This is a simple gift to implement. You just transfer cash, write a check or use your credit card. The gift is fully deductible up to 60% of AGI (100% in 2020) with a 5-year carryover of any excess deduction.

Outright gift of long-term appreciated securities. Easy to carry out and the most popular non-cash gift. Just transfer possession and any document of title to charity. The gift is deductible up to 30% of AGI, with a 5-year carryover provision. There is no capital gains tax owed on the appreciation.

Charitable remainder annuity trust (CRAT). A CRAT will pay you or another beneficiary a percentage of the initial value of the assets donated to the trust for life or for a period of up to 20 years. There is no capital gains tax when you transfer appreciated property to the CRAT. You can deduct the present value of the charity's remainder interest, subject to the 60% (cash gift) or 30% (long-term appreciated property) of AGI limitation.

Charitable remainder unitrust (CRUT). A CRUT will pay you or another beneficiary a percentage of the value of the trust assets as revalued each year—if the value of trust assets goes up or down, so does the payout amount. There is no capital gains tax when you transfer appreciated property to the CRUT or when the trustee sells the property. You can deduct the present value of the charity's remainder interest, subject to the 60% (cash gift) or 30% (long-term appreciated property) of AGI limitation. A CRUT is more flexible than a CRAT and can act as a hedge against inflation.

Charitable gift annuity. Transfer cash or appreciated property to charity and receive back fixed payments for life. The payment amount is based on the age(s) of the beneficiary(ies) and is partly tax-free until the beneficiary reaches life expectancy. If you give appreciated property, you can recognize some of the capital gain pro-rata over your life expectancy (if you are the primary beneficiary). You can deduct the value of the property given, minus the present value of the income stream from the annuity, subject to the 60% (cash gift) or 30% (long-term appreciated property) of AGI limitation.

Life insurance. You can use life insurance to make tax-wise charitable gifts. An irrevocable assignment of a paid-up life insurance policy can generate an income tax deduction that reflects your cost basis in the policy or its replacement value (whichever is lower). Alternatively, you can give other assets to charity, then use a life insurance policy to eventually replace the wealth in your estate that you contributed to charity during life.

IRA Charitable Rollover. If you are age 70½ or over and own an IRA, you can make a gift using a direct transfer of funds from your IRA to charity. Transferred amounts count toward your required minimum distribution, but no tax is due on the distribution (up to $100,000 annually). At any time during the year, you can simply notify the IRA custodian to make a direct transfer of the required distribution amount from your IRA to us. This is not only an easy way to give, but it can play a strategic role in your annual planning and have an immediate impact on our mission. (Note: Under the CARES Act, RMDs are not required in 2020. IRA contributions after age 70½ reduce qualified charitable distribution amounts.)



The Next Step

We can help you find rewarding year-end planning strategies with unique combinations of tax savings and personal satisfaction. You can implement many of these strategies with the help of our experienced professional staff who are committed to helping you explore the best planning and transfer goals for your personal situation. Please take a moment to contact us by phone or email, and as always, we value your support and look forward to working with you in the future.

OUR MISSION:

The Hendricks County Community Foundation partners with generous people to realize their charitable goals while addressing community needs in meaningful and lasting ways.

OUR VISION:

Hendricks County is a vibrant, giving community.

Where Local Good Grows

Hendricks County Community Foundation

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