

Practical Charitable Giving

Presented by
Michele Wasson

BACKGROUND

- Charitable Deduction Rules
- How the 2017 Tax Cuts and Jobs Act affected those rules
- Did the changes have an effect on charitable giving? The 2019 USA Giving and the U.S. Trust Philanthropy Reports

OVERVIEW

- Practical charitable planning
- How can we motivate donors?
- Favored techniques under the current tax and economic environment
 - Bunching: Single large charitable deduction
 - Excludable income
 - Win-win philanthropic and personal goals
 - Lifetime benefits
 - Meaningful giving

CHARITABLE DEDUCTION RULES

- Donors must itemize
- Carry forward 5 years
- The standard deduction for married joint filers: \$24,400
- Donor income rates reduced
- Estate tax exclusion increased to \$11.4 million
- Top corporate rate reduced to 21%
- 50% limit for cash gifts to 50% charities
- 30% limit for cash to private foundation, appreciated property, and “for the use of” gifts to 50% charities
- 60% limit on cash gifts to 50% charities

CHARITABLE TAX LAW CONTINUED

- Capital Gain Property
 - Deductible at FMV to 50% charities
 - Deductible at basis for private foundation and limited to 20%, except marketable securities
- Tangible Personal Property
 - Related Property: deductible at FMV to 30%
 - Unrelated Property: basis

For the first time ever, charitable giving exceeded the \$400 billion mark in 2017, spurred by growth from all four sources of giving.

\$410.02 billion

Where did the generosity come from?*

Giving by Individuals ↑ 5.2% **70%**
\$286.65 billion

increased 5.2 percent (3.0 percent when inflation-adjusted) over 2016

Giving by Foundations ↑ 6.0% **16%**
\$66.90 billion

increased 6.0 percent (3.8 percent when inflation-adjusted) over 2016

Giving by Bequest ↑ 2.3% **9%**
\$35.70 billion

increased 2.3 percent (0.2 percent when inflation-adjusted) over 2016

Giving by Corporations ↑ 8.0% **5%**
\$20.77 billion

increased 8.0 percent (5.7 percent when inflation-adjusted) over 2016

Contributions by source (by percentage of the total)



Visit www.GivingUSA.org to learn more and to order your copy of *Giving USA 2018: The Annual Report on Philanthropy for the Year 2017*.

* All figures on this infographic are reported in current dollars unless otherwise noted.



Giving to arts was the second-fastest growing subsector, with an 8.7 percent increase over the previous year to a total of \$19.51 billion in 2017.



Giving to foundations increased 15.5 percent in 2017, the largest gain of any subsector, far outpacing the growth in total giving.

Where are all of the charitable dollars going?

(as a percentage of the total)

The 6 largest subsectors all grew in 2017, but growth rates ranged widely from 2.9 percent all the way to 15.5 percent.

31% Religion ↑ \$127.37 billion

14% Education ↑ \$58.90 billion

12% Human Services ↑ \$50.06 billion

11% To Foundations ↑ \$45.89 billion

9% Health ↑ \$38.27 billion

7% Public-Society Benefit ↑ \$29.59 billion

5% Arts, Culture, and Humanities ↑ \$19.51 billion

6% International Affairs ↓ \$22.97 billion

3% Environment/Animals ↑ \$11.83 billion

2% To Individuals ↓ \$7.87 billion

Giving USA Foundation™, The Giving Institute, and the Indiana University Lilly Family School of Philanthropy are pleased to continue their partnership in providing the most comprehensive, longest-running, and most rigorously researched resource on U.S. charitable giving, *Giving USA: The Annual Report on Philanthropy*. It is a privilege to report on Americans' generosity and related historical trends on U.S. charitable giving.



Giving USA™
Shared intelligence.
For the greater good.



THE Giving Institute™
Shared intelligence.
For the greater good.



IUPUI
LILLY FAMILY SCHOOL OF PHILANTHROPY

How much did Americans give in 2018?

\$427.71 billion

Americans gave \$427.71 billion to charity in 2018 in a complex year for charitable giving.

Giving to foundations decreased the most, after experiencing strong double-digit growth in the year prior.



Where did the generosity come from?

Contributions by source (by percentage of the total)

Giving by Foundations
\$75.86 billion
(4.7% up when inflation adjusted)

↑ 7.3% over 2017

18%

Giving by Bequest
\$39.71 billion
(2.3% down when inflation adjusted)

0.0% same as 2017

9%

Giving by Corporations
\$20.05 billion
(2.9% up when inflation adjusted)

↑ 5.4% from 2017

5%

Giving by Individuals
\$292.09 billion
(3.4% down when inflation adjusted)

↓ 1.1% from 2017

68%

Giving by individuals declined in 2018, comprising less than 70 percent of overall giving for the first time in at least 50 years.

* All figures on this infographic are reported in current dollars unless otherwise noted.



Visit www.GivingUSA.org to learn more and to order your copy of *Giving USA 2019: The Annual Report on Philanthropy for the Year 2018*.

Where are all the charitable dollars going?

Contributions by source (by percentage of the total)

Giving to international affairs showed the largest growth in 2018 of any sector.



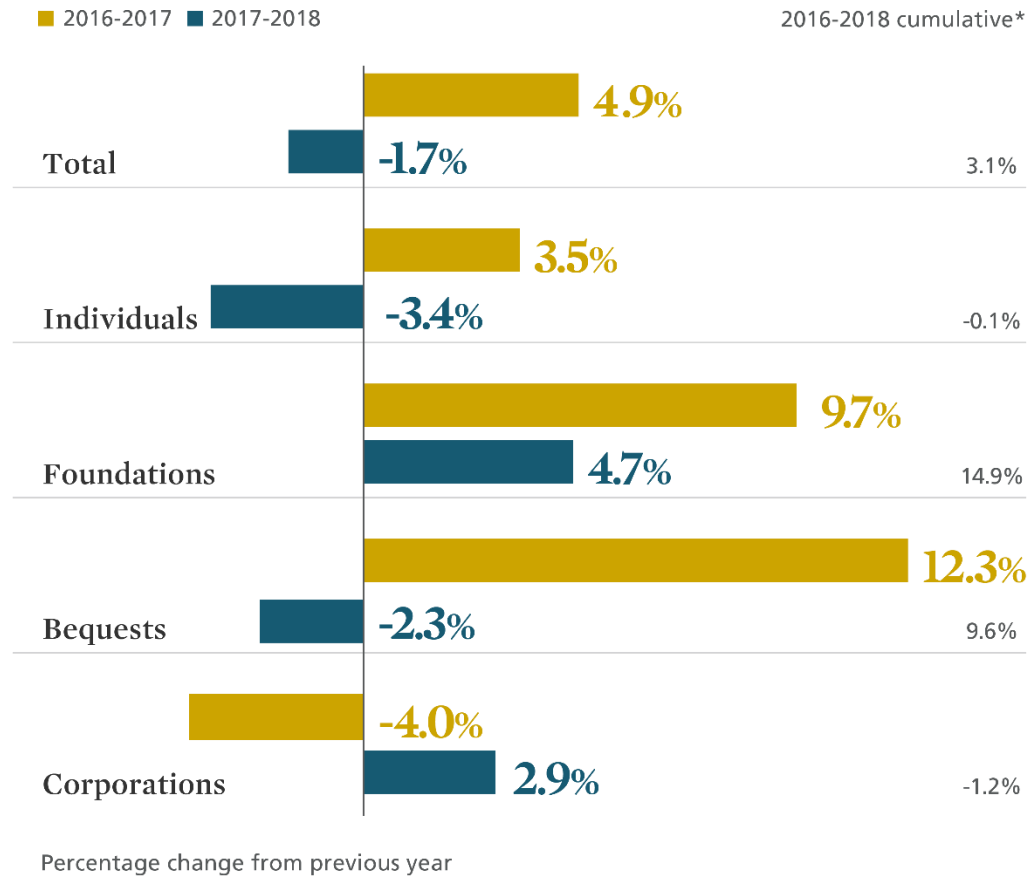
- 29% to Religion | \$124.52 billion ↓ -1.5% -3.9%
- 14% to Education | \$58.72 billion ↓ -1.3% -3.7%
- 12% to Human Services | \$51.54 billion = -0.3% -2.7%
- 12% to Foundations | \$50.29 billion ↓ -6.9% -9.1%
- 10% to Health | \$40.78 billion = 0.1% -2.3%
- 7% to Public-Society Benefit | \$31.21 billion ↓ -3.7% -6.0%
- 5% to International Affairs | \$22.88 billion ↑ 9.6% 70%
- 5% to Arts, Culture, and Humanities | \$19.49 billion = 0.3% -2.1%
- 3% to Environment/Animals | \$12.70 billion ↑ 3.6% 1.2%
- 2% to Individuals | \$9.06 billion - -

■ indicates growth in current dollars with a decline after adjusted for inflation



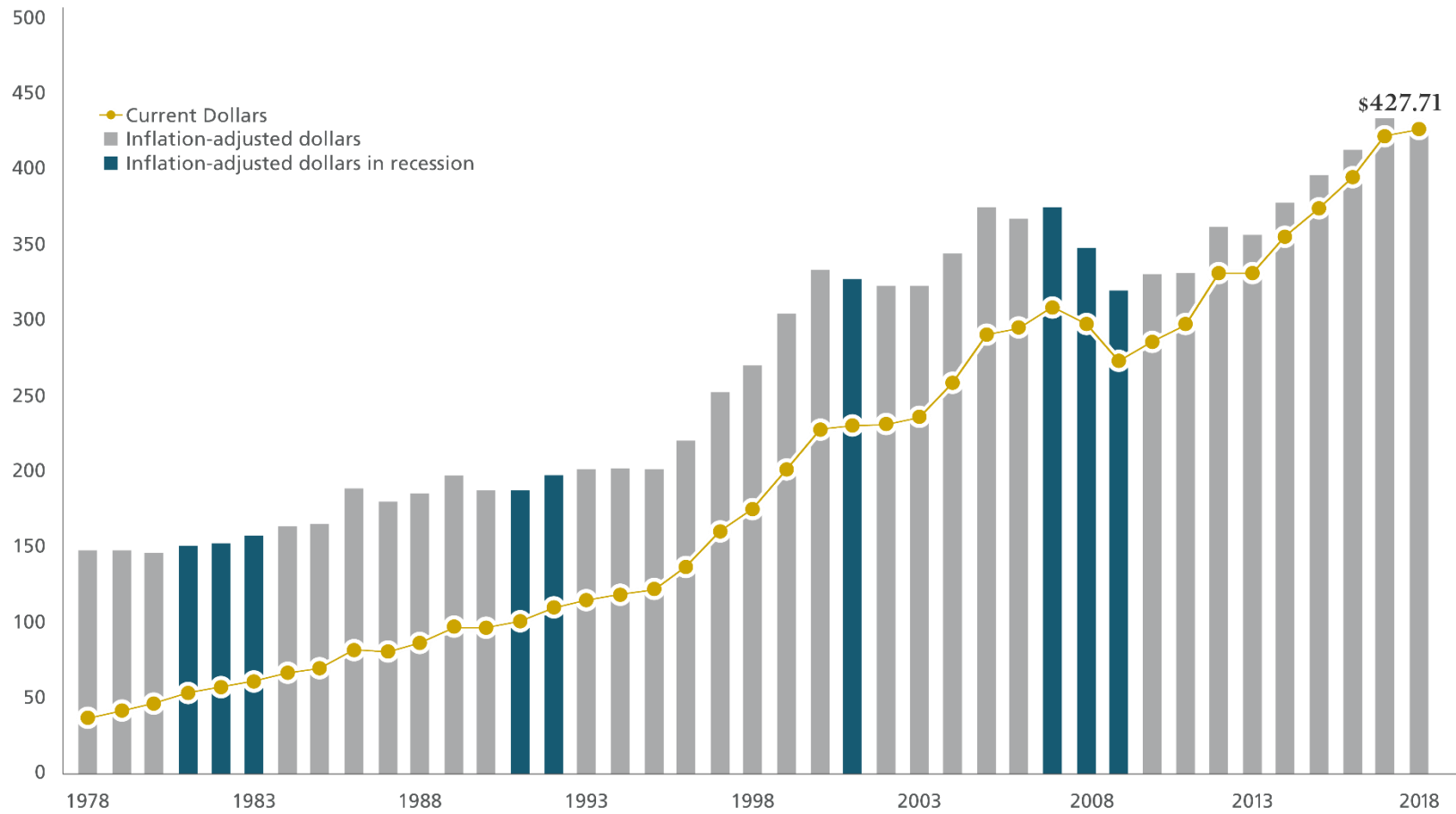
Giving USA Foundation™, The Giving Institute, and the Indiana University Lilly Family School of Philanthropy are pleased to continue their partnership in providing the most comprehensive, longest-running, and most rigorously researched resource on U.S. charitable giving, *Giving USA: The Annual Report on Philanthropy*. It is a privilege to report on the generosity of Americans and related historical trends on U.S. charitable giving.

CHANGES IN GIVING BY SOURCE: 2016–2017 AND 2017–2018, 2016–2018 CUMULATIVE (IN INFLATION-ADJUSTED DOLLARS, 2018 = \$100)

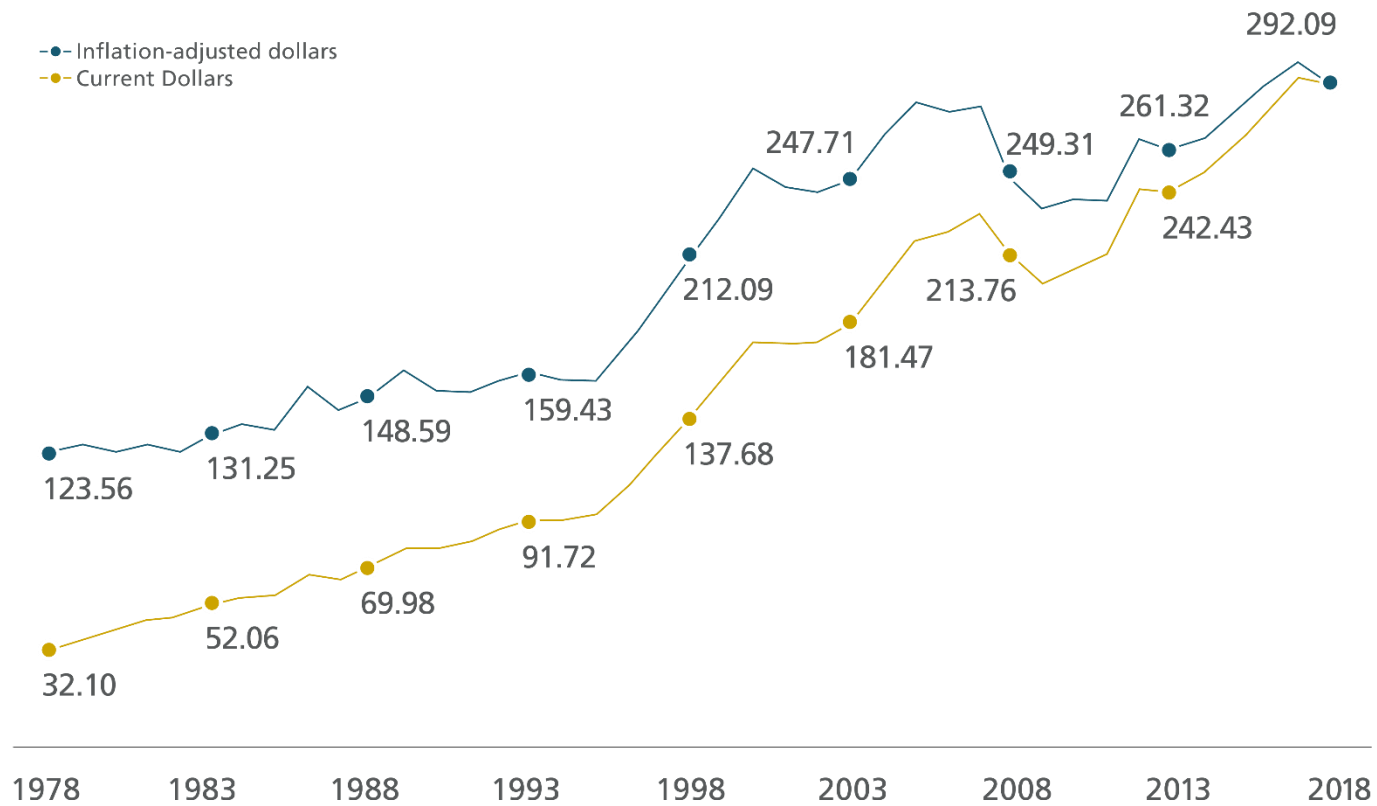


* The two-year change is calculated separately and is not the sum of the changes in the two years.

TOTAL GIVING, 1978-2018 (IN BILLIONS OF DOLLARS)



GIVING BY INDIVIDUALS, 1978-2018 (IN BILLIONS OF DOLLARS)



2018 U.S. TRUST/ LILLY FAMILY SCHOOL OF PHILANTHROPY HNW PHILANTHROPY STUDY

- Donors are diverse.
 - 48% volunteer – more women. Desire to use their skills and belief in mission.
 - Women are at the forefront of giving and engagement.
 - Only 49% of donors have a strategy for their giving.
 - Only 42% of donors believe their gift is having the intended effect.
-
- HNW is \$200,000 household income and \$1 million wealth excluding homes.
 - <https://www.privatebank.bankofamerica.com/articles/2018-us-trust-study-of-high-net-worth-philanthropy.html>

2018 U.S. TRUST/ LILLY FAMILY SCHOOL OF PHILANTHROPY HNW PHILANTHROPY STUDY (CONT.)

- 17% report prime reason for donating is tax.
- 51% report tax is sometimes their reason for donating.
- 91% report that sound business and operational practices is most important.
- 41% said that they stopped giving to one organization because the solicitations were too frequent.
- Donors are interested in identifying right volunteer experience, becoming more familiar with constituents' needs, and exploring how to engage next generation.

STILL, 68% OF DONORS ARE MOTIVATED BY TAX RESULTS OF CHARITABLE GIVING

- Favorable with low interest rates:
 - Charitable Lead Trusts
 - Remainder gifts of farm and residence
- Single large charitable deduction:
 - DAF
 - Private foundation
 - Charitable remainder trusts (CRTs)
- Excludable income:
 - Charitable gift annuities
 - Certain FLIP CRUTs
 - Retirement benefits
 - Impact investing

STILL, 68% OF DONORS ARE MOTIVATED BY TAX RESULTS OF CHARITABLE GIVING (CONT.)

- Win-win philanthropic and nonphilanthropic goals
 - Certain FLIP CRUTs
- Lifetime benefits
 - Use of CRT during lifetime
- Meaningful giving
 - Help donors create a strategy to maximize impact and efficient giving structures
 - Identify what is meaningful to the donor and how we can work together to achieve something impactful

RETIREMENT ASSETS: EXCLUSION FROM INCOME TAX

For donors at least 70.5 years old the IRS allows a qualified charitable distribution. This amount is excluded from income and included in the donor's RMD.

Name CRT as beneficiary: Tax-exempt trust pays no income upon distribution. Estate takes charitable deduction for charitable portion.

Name charitable beneficiary as designated beneficiary.

CRTs: AVOIDANCE OF INCOME AND CURRENT CHARITABLE DEDUCTION

- Excludes capital gain of low basis business interests.
- When income is distributed to the noncharitable beneficiary it retains its character.
- Influence of low Section 7520 rate can cause a charitable remainder trust to fail the 10% remainder test or the 5% exhaustion test, especially for young lifetime payouts.

FLIP CRUTs WIN-WIN

- Unitrust that converts from a NIMCRUT to a CRUT at trigger event.
- Trigger event must be a single event whose occurrence is not discretionary: a specific date, birth, or death.
- Forfeit any distribution that is not made up at the conversion year.
- Donor Goals:
 - Retirement: Invest for growth and distribute “net income.” At trigger date, the trust converts and pays out unitrust percentage going forward.
 - Spouse’s income after death.
 - Education or other income upon life event.

CHARITABLE GIFT ANNUITY: AVOID INCOME

- Low Section 7520 rate reduces the charitable deduction but also reduces portion of reportable income.
- If gift consists of appreciated property and donor is annuitant, then capital gains are reported ratably.
- Only for lifetime, but can be deferred. Donor obtains charitable deduction now for deferred payments at retirement.
- Fund with “for the use of” capital gain property.

CHARITABLE LEAD: NONTAXABLE GIFT

Low Section 7520 rates offer opportunity to make significant gift to remainder beneficiaries.

Zero out the CLAT and use 20% increasing annuity amount

Private foundation rules apply.

Annuities are preferred in inflation or appreciating assets.

Example: Assume \$1 million is contributed to a CLAT with a term of 10 years, the 7520 rate is 1.8%, and the payout rate starts at 4.355% and increases by 20% each year. With a 6% ROI, the remainder beneficiaries receive \$421,857 and the charitable beneficiary receives \$1.13 million.

REMAINDER INTEREST OF PERSONAL RESIDENCE OR FARM

- Low Section 7520 rates increase the charitable deduction.
- Donor contributes remainder interest in residence or farm to charity and receives current charitable deduction.
- Simple.
- No lifetime contribution requires donor to retain life interest in property.

PRIVATE FOUNDATIONS AND DAF: BUNCHING

- Private foundations and DAFs offer donors an immediate deduction.
- Both provide the donor with some control.
- Permanent place to make charitable contributions and involve family members making decisions over time.