

# TAX EFFICIENT CHARITABLE GIFTING DURING LIFE

## Gifts

- Highly Appreciated stock or real estate eliminates paying capital gain taxes
- Doubling up on donations in one year—take advantage of new standard deductions and personal exemption tax law changes.
- Consider opening a Donor Advised Fund (DAF) account, which allows you to contribute cash, highly appreciate assets or investments that have been held at least a year. This special-purpose charitable account enables you to take one large current year tax deduction, if you itemize and potentially avoid paying capital gains tax on the sale of highly appreciated asset (stocks, mutual funds, real estate). You can invest funds for potential growth, and then grant to charities of your choice over time. This allows you to take full advantage of future years standard deductions/personal exemptions and offset capital gains that you may have the year you donated to the Donor Advised Fund.

**Example:** Couple donated \$20,000/year to charity and has \$5,000/yr in deductible medical expenses and \$5,000 in state and local tax deductions on yearly basis. Couple has annual income of \$150,000.

Gift \$100,000 of highly appreciated asset which had \$5,000 cost basis (Wal-Mart, Exxon Mobile, Proctor Gamble or any XYZ stock) into Donor Advised Fund.

Year 1: Do not use standard deduction and receive \$55,000 in tax deductions year 1 (can use up to 30% of your adjusted gross income to deduct highly appreciated stock. Can carry over for 5 years.

Year 2: Do not use standard deduction and receive \$55,000 in tax deductions year 1 (can use up to 30% of your adjusted gross income to deduct highly appreciated stock. Can carry over for 5 years..

Year 3: Use \$25,900(for 2024) standard deduction and personal exemption/couple

Year 4: Use \$25,900(for 2025) standard deduction and personal exemption/couple

Year 5: Use \$25,900(for 2026) standard deduction and personal exemption/couple

Clients may also be able to use property taxes, state income taxes, interest on their home, health insurance premiums, Medicare premiums, and Medicare supplement premiums that they would not otherwise be able to expense yearly.

Worst case scenario, \$55,000 is used in year one and two as tax deduction but then we have three (3) years that we can use our full standard deduction and personal exemption/couple.

Five years of standard deduction is \$129,500 vs. \$187,700 in this example.

2022- \$55,000	
2023- \$55,000	
2024 - \$25,900	\$ 12,804 – 22% Federal Income Tax
2025 - \$25,900	\$ 2,910 – 5% Oklahoma State Income Tax
2026 - <u>\$25,900</u>	\$ 15,714 – Total Tax Savings
Total- \$187,700	

Of course the savings may be more or less depending on income limitations.

## QCD

- In the month you turn 70 ½ you can do direct transfer funds from IRA to a qualified charity up to \$100,000/yr.
- If you are over 70 ½ using your IRA to tithe or gift to charities almost **always** help save Fed and State income tax and can help your S.S. income become less taxable. Also, if you reduce your Modified Adjusted Gross Income (MAGI) this can affect the costs you pay on your Medicare supplements.
- Includes: Traditional IRA, Inherited IRA, SEP IRA (Inactive), SIMPLE IRA (Inactive)
- What is important to your client and what have they been involved in during their lifetime?
  - Church
  - Rotary, Kiwanis, Lion's Club
  - Tahlequah Community Fund (FCT)
  - Help-In-Crisis
  - Red Cross
  - Tahlequah Public Schools
    - Sports
    - Band
    - Choir
    - Science Club
    - Math Club
  - Community Parks
  - Dog Parks
  - Walking Trails

# TAX EFFICIENT LEGACY GIFTING

## AT DEATH

- IRA-reduce passing tax burden to kids
- Trust-make charitable wishes known

### Donating an IRA to charity at Death

- Neither you or your heirs will pay income taxes on the distribution of the IRA assets if they go to charity
- Because charities do not pay income tax, the full amount of your retirement account will directly benefit the charity of your choice.
- It is possible to divide your retirement assets between charities and heirs according to any percentage you choose.
- You have the opportunity to support a cause you care about as part of your legacy.

### Child as beneficiary example: \$100,000 IRA

Leave to kids		\$100,000
Children tax rate	22% Fed	\$ 22,000
	<u>5% State</u>	<u>\$ 5,000</u>
		\$ -73,000 net to kids

### Charity as beneficiary example: \$100,000 IRA

Charity		\$100,000
Charity Tax rate is 0%	<u>-0-</u>	
		\$100,000 net to charity