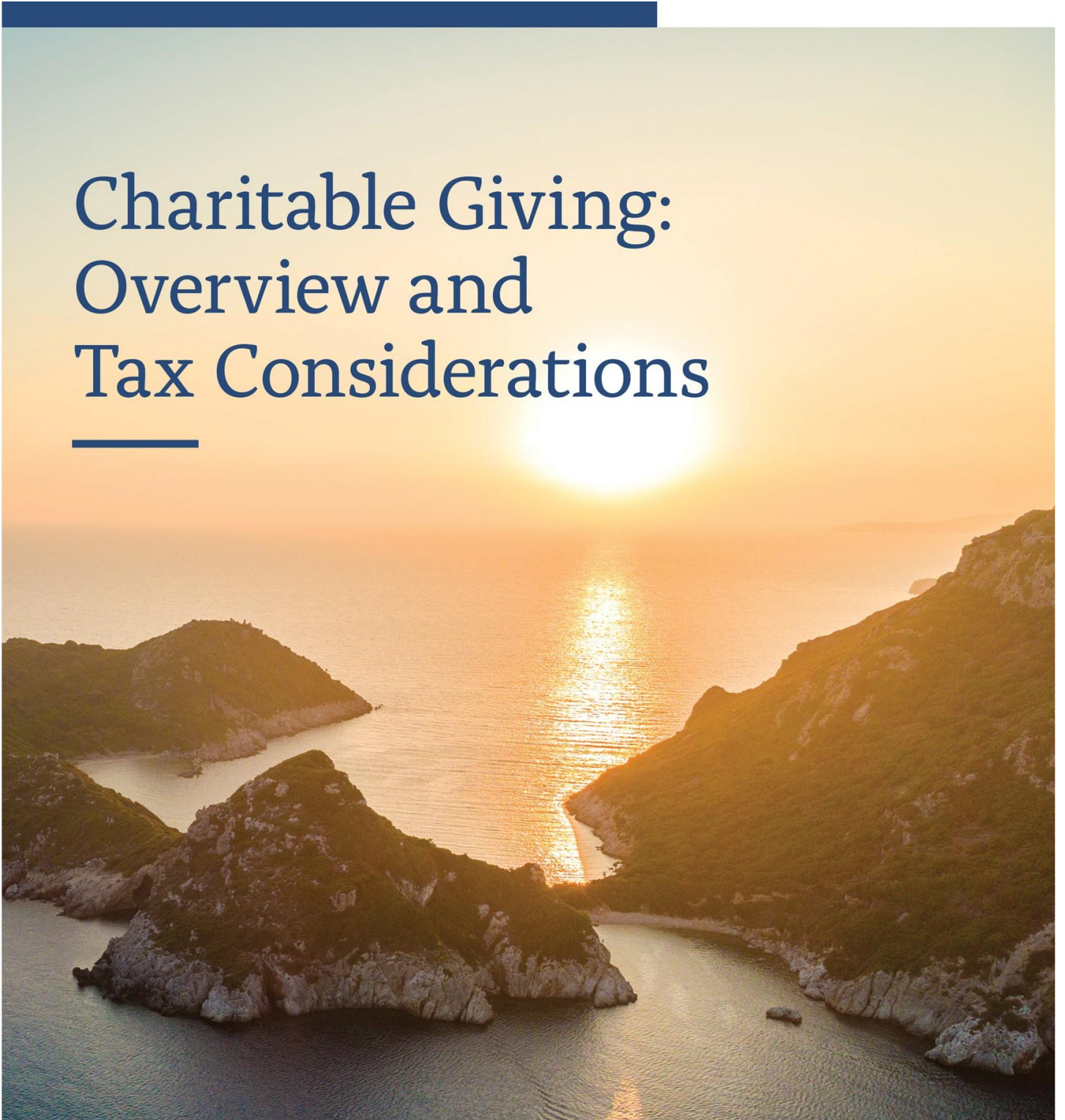




TRI WEALTH, LLC

Charitable Giving: Overview and Tax Considerations



Charitable Giving: Overview and Tax Considerations

The desire to assist a charitable organization must be a primary motive for making a charitable gift. If no charitable inclination exists, charitable giving is difficult to justify. Alternatively, if a charitable motive exists, the tax laws provide various methods and incentives to encourage and facilitate the donor's goodwill. The following summarizes the general rules applicable to charitable giving, including a discussion of some common strategies used.

Tax considerations and rules for charitable deductions

Generally, charitable gifts can reduce federal income, gift, and/or estate tax. In addition, states that impose income and/or estate tax generally allow charitable deductions.

Income tax

An income tax deduction is available for lifetime gifts to charity. The available deduction amount varies with the type of charity; the type of property donated; the form of the gift; and whether the donor is an individual or a corporation.

Individuals who donate to a public charity (house of worship, hospital, museum, university, etc.) are generally subject to the following constraints:

- Cash is generally deductible up to 60% of the donor's adjusted gross income (AGI).
- Ordinary income property or short-term capital gain property is deductible up to 50% of AGI; however, the deduction is limited to the lesser of the donor's cost basis or the property's fair market value (FMV) on the date of the gift.
- Long-term capital gain property is deductible up to 30% of the donor's AGI; alternatively, the donor can make a special election to deduct the cost basis up to 50% of AGI.
- Gifts "for the use of" the charity are deductible up to 30% of AGI.
- Note that partial interest gifts (i.e., those which are made into trust or which pay income only to the charity) may generate lower income tax deductions (as discussed below in greater detail).
- Contributions in excess of the above AGI limits may generally be carried forward to future tax returns for up to five years. (At death, the five-year carry forward dies with the decedent, but it can be claimed on the decedent's final income tax return.)

Individuals who donate to a private foundation are generally subject to the following constraints:

- Cash is generally deductible up to 30% of the donor's AGI.
- Ordinary income property or short-term capital gain property is deductible up to 30% of AGI.
- Long-term capital gain property is generally deductible up to 20% of AGI.
- Contributions in excess of the above AGI limits may generally be carried forward to future tax returns for up to five years. (At death, the five-year carry forward dies with the decedent, but it can be claimed on the decedent's final income tax return.)

Corporations generally may deduct up to 10% of taxable income, with the five-year carry forward for donations to a public charity or a private foundation.

Estate tax

An estate tax deduction is available for testamentary charitable gifts and is generally unlimited regardless of whether the recipient is a public charity or private foundation. However, partial interest gifts made at death are not eligible for a full deduction; only the present value of the charitable interest is deductible.

Gift tax

A gift tax deduction is available for gifts made during the calendar year which are made to or for the use of:

- The United States, a state or political subdivision of a state, or the District of Columbia for exclusively public purposes;
- Any corporation, trust, community chest, fund, or foundation organized and operated only for religious, charitable, scientific, literary, or educational purposes, or to prevent cruelty to children or animals, or to foster national or international amateur sports competition (if none of its activities involve providing athletic equipment unless it is a qualified amateur sports organization), as long as no part of the earnings benefits any one person, no substantial propaganda is produced, and no lobbying or campaigning for any candidate for public office is done;
- A fraternal society, order, or association operating under a lodge system, if the transferred property is to be used only for religious, charitable, scientific, literary, or educational purposes, including the encouragement of art and the prevention of cruelty to children or animals; or
- Any war veterans' organization organized in the United States (or any of its possessions), or any of its auxiliary departments or local chapters or posts, as long as no part of any of the earnings benefits any one person.

Charitable gifting strategies

Charitable lead trusts

A charitable lead trust (CLT) is designed to provide an income flow to charity for a period of time, after which the donated property may be returned to the donor or distributed to other non-charity beneficiaries. A CLT is one of the few charitable giving techniques that can generate an income, gift, and estate tax deduction.

A CLT may be appropriate where a donor (1) is charitably inclined, (2) has a desire to reduce income tax, (3) owns an income-producing asset yet does not need the income currently, and (4) would like to retain the asset's principal or pass it on to other beneficiaries. A gift to a CLT is considered a gift "for the use of" (not a gift "to") charity, which reduces the income tax deduction to the limits set forth above regarding private foundations.

Typically, these arrangements are used to transfer property to family members of a younger generation with little or no gift tax. Because the family member will not receive benefits from the property for a number of years, the value of the gift can be discounted, often substantially. Discounted value simply acknowledges the time value of money concept – that a dollar to be received in the future is worth less than a dollar today.

Charitable remainder trusts

Gifts to a charitable remainder trust (CRT) provide income to the donor for life or for a specified term of years not to exceed 20 years. At the end of the trust term, the charity receives the remainder of the property (somewhat the opposite of the CLT). Contributions generate a current income tax deduction to the donor, based on the discounted value of the future gift to charity. The size of the deduction varies with the age of the taxpayer, the payout term, and the size of the annual payout in relation to the value of the donated property.

Low-basis securities or real estate often are attractive assets for such donations. The assets may pay little income to the donor, yet if he/she sells the asset, substantial capital gains would be due. However, if the assets are transferred to a CRT, then such assets can be liquidated income tax-free since the CRT is a tax-exempt entity. The proceeds can be reinvested to provide increased income to the donor. The donor pays income tax only as the payments are received from the trust. It is crucial, however, that the donor transfer the assets to the CRT in advance of any agreement to sell the assets to a third party.

A charitable remainder annuity trust (CRAT) is an arrangement in which property is donated in exchange for fixed annuity payments to the donor or the donor's designee. Annual payments must amount to at least 5% of the FMV of the donated property at the time of the gift. If a fixed term (rather than a life term) is used, it cannot exceed 20 years. Additional contributions cannot be made after the initial funding.

A charitable remainder unitrust (CRUT) is similar to a CRAT, but differs because the payout to the donor or designee may vary each year. Where the CRAT pays a fixed percentage of the original value of the trust assets, the CRUT pays a percentage of the trust assets as revalued each year. CRUTs also allow additional contributions in subsequent years.

Pooled income funds

A pooled income fund is a type of trust created and managed by a charity, into which a donor transfers property. In return for the donation, the donor (or his/her designee) receives a lifetime income paid from the earnings of the fund. Note, if the donor names a designee other than himself/herself as the income beneficiary, gift tax consequences may result. Upon the death of the income beneficiary, the value of the remainder interest is removed from the pooled income fund and transferred to the charity.

The donor will receive an income tax deduction in the amount equal to the present value of the charity's remainder interest (subject to public charity deduction limits set forth previously). Factors determining present value include age of income beneficiary, value of the asset, and the highest rate of return of the fund over the last three years. The income beneficiary is taxed on the income received from the fund each year. Pooled income funds are a good alternative where the donor would like a current income stream from donated property but does not want to incur the costs and legal fees of establishing a charitable remainder trust.

Charitable gift annuities

A charitable gift annuity is a direct contract between a charity and a donor, whereby the donor transfers cash or appreciated property to the charity in return for an unsecured promise to pay an income stream to the donor. The payment period can be measured by one annuitant's life (who is in most cases the donor) or by the lives of two joint and survivor annuitants (who are usually spouses). The donor receives an income tax deduction for the value of the property donated less the value of the gift annuity. The American Council on Gift Annuities publishes suggested charitable gift annuity rates for use by charities and donors.

Typically, payments are generally received as part non-taxable return of principal; part capital gain (in the case of appreciated property); and part ordinary income. Once principal and capital gain have been completely recovered by the payee, annuity payments are received as 100% ordinary income.

Charitable gift annuities are commonly used with smaller gifts to charities that have established gift annuity programs. A charitable gift annuity also may be appropriate where the donor wishes to increase cash flow from appreciated property that is not currently providing income. Because annuity payments are not secured, the good faith and general assets of the charity are extremely important.

Life insurance policies

Life insurance can provide needed liquidity to fund gifts and endowments to a charity, and to replace value otherwise lost to heirs. Life insurance also can enable a donor to provide a more substantial contribution to charity than would otherwise be possible.

The simplest form of a charitable gift using life insurance is to designate a charity as beneficiary of the policy. At the donor's death, the estate will receive a charitable deduction equal to the death proceeds passing to charity. The donor retains the right to change the beneficiary and the right to the cash value of the policy during his/her lifetime.

A lifetime gift of an existing or new life insurance policy will generate an income tax deduction for the donor. The income tax deduction for a gift of a policy to a charity will be equal to the lesser of the donor's cost basis in the policy or FMV of the policy. The donor would then continue to make deductible charitable contributions equal to the annual premium on the policy. The deduction available is subject to 60% limits for public charities and 30% for most private foundations.

More often, life insurance is used as a wealth replacement device. Life insurance can replace some or all of a charitable gift by providing a cash gift to the donor's family. When placed into an irrevocable trust, the full amount of policy proceeds can pass, undiminished by estate tax, to the donor's heirs.

As with many other charitable planning techniques, the rules relating to the use of insurance for charitable giving can be complex and often encompass both state and federal laws. In particular, insurable interest laws, which vary from state to state, should be reviewed when charity-owned life insurance on a donor is considered.

Private foundations

A private foundation (also commonly referred to as a “family foundation”) is a charitable nonprofit organization established and funded by a single source, typically a donor family or corporation. The foundation is most often established during a donor’s lifetime, but also can be created upon death. Essentially, a private foundation is a tax-exempt checkbook; it is a repository of money and conduit between the donor and the charity. The private foundation itself does not directly engage in charitable activities (as compared with a private operating foundation, which has a stated charitable purpose and carries out its own programs, such as a food bank).

A private foundation is controlled by a board of directors or board of trustees, who may be selected by the donor. The board determines issues such as the charities to be benefitted, the size of grants, and investment policy. This enables the donor to involve family members early on in the decision-making process to foster philanthropy and social responsibility in future generations. Of all the charitable planning techniques available, private foundations provide the highest level of control and flexibility to the donor in terms of how gifts will be applied to charitable causes.

For lifetime cash contributions, the donor’s deduction will generally be limited to 30% of AGI. For gifts of appreciated property, the deduction is generally limited to cost basis up to 20% of AGI. (Exception: deduction is not limited to basis for publicly traded securities where donated stock is no more than 10% of corporation’s shares.) Unlike public charities, which are generally exempt from income tax, private foundations are subject to special excise taxes of up to 2% on investment income generated in a given year.

Because private foundations are considered more susceptible to possible operation for the private benefit of donors and managers, the Internal Revenue Code contains several special rules for private foundations that do not apply to public charities. Violations will result in extremely severe penalties and taxes for the foundation, and in some cases, its managers and substantial contributors.

Donor advised funds

A donor advised fund (DAF) is a separate account of a sponsoring charitable organization established by a donor who retains the right to recommend grants to be made to qualifying charities. The sponsoring organizations generally allow the donor to serve as an advisor to the fund or to name another person to serve as an advisor. DAFs are most commonly offered by community foundations that make grants to various local charities. In recent years, many established charities have begun offering DAFs in addition to their primary activities. Contributions to donor advised funds are generally eligible for a current income tax deduction.

A DAF is a good alternative to a private foundation due to lower costs associated with formation and management and fewer regulatory hassles. In addition, gifts to a DAF are subject to the higher deduction limits that apply to public charities – 60% for gifts of cash and 30% for gifts of appreciated property.

A DAF should be considered where the donor is interested in being involved in distribution decisions but is not making the larger scale gifts usually necessary to justify the expense of a private foundation. In addition, because a DAF can be established relatively quickly, it can be a very useful year-end tax planning tool. The donor can make an immediate donation and decide which charities to benefit later.

Qualified plans

The use of retirement assets to fulfill charitable objectives has significant tax benefits. Generally, retirement plan proceeds are considered income in respect of a decedent (IRD), and death beneficiaries receive proceeds as ordinary income (possibly taking an income tax deduction for the estate tax attributable to the IRD). However, IRD can be eliminated by naming a tax-exempt charity as plan beneficiary. Therefore, instead of the individual beneficiary keeping only a percentage of the plan dollars, charity can receive 100% of the plan.

In addition, the Protecting Americans from Tax Hikes (PATH) Act of 2015 made permanent a provision that allows individuals over the age of 70½ to exclude from gross income up to \$100,000 that is paid directly from their IRA to a qualified charity. This qualified charitable distribution can be used to satisfy any required minimum distribution that the individual must otherwise receive from his/her IRAs, beginning at age 72 (age 73 if the individual attains age 72 after December 31, 2022).

Additional information about charitable giving

As with most tax incentives, the tax rules are complex, and it is important to obtain professional advice when making substantial charitable contributions. For example:

- The untaxed portion of appreciated capital gain property contributed to charity is treated as a tax preference item for alternative minimum tax purposes, which means, in effect, that for taxpayers subject to the alternative minimum tax, the income tax deduction is limited to the cost of the property.
- When gifting property that has been depreciated, the charitable deduction may be reduced.
- Contribution deductions arising from overvaluations of contributed property may result in tax penalties.
- For gifts of property valued at \$5,000 or greater, a qualified appraisal of the property is required.
- CLTs, CRTs, and pooled income funds must file IRS Form 5227, Split-Interest Trust Information Return, annually.

The One Big Beautiful Bill Act of 2025 – Key provisions for charitable planning

Deduction for non-itemizers (effective January 1, 2026): Taxpayers who take the standard deduction can now claim an above-the-line deduction for cash contributions of up to \$1,000 (single filers) or \$2,000 (joint filers) annually. This aims to incentivize giving among the roughly 86% of taxpayers who do not itemize.

Itemized deduction floor for individuals (effective January 1, 2026): For itemizing taxpayers, contributions are deductible only to the extent they exceed 0.5% of their Adjusted Gross Income (AGI). For example, a taxpayer with a \$1 million AGI must have over \$5,000 in donations before any amount is deductible. Amounts disallowed by the floor can be carried forward for five years, but only if the total contribution also exceeds the existing AGI limits.

Cap on total itemized deductions for high earners (effective January 1, 2026): For taxpayers in the highest 37% tax bracket, the overall tax benefit of their itemized deductions is capped at 35% of the deduction's value. This effectively reduces the tax savings on their charitable gifts.

Permanent 60% AGI limit for cash gifts: The Act makes permanent the rule allowing individuals to deduct cash contributions to public charities up to 60% of their AGI.

Estate and gift tax exemption increase: The federal estate, gift, and generation-skipping transfer (GST) tax exemption is permanently raised to \$15 million per person (or \$30 million per married couple), adjusted for inflation, beginning January 1, 2026. This reduces the number of estates subject to federal estate tax, making estate-based charitable planning a focus primarily for the ultra-wealthy.

Corporate deduction floor (effective January 1, 2026): Corporations are subject to a new floor, where deductions are allowed only for contributions exceeding 1% of their taxable income, up to the existing 10% limit.

New tax credit: A new non-refundable tax credit of up to \$1,700 is available for contributions to scholarship-granting organizations (effective January 1, 2027).

As a result of H.R.1 of the 119th Congress (commonly known as the One Big Beautiful Bill Act), the estate, gift, and generation skipping tax exemptions amounts enacted under the Tax Cuts and Jobs Act of 2017 were made permanent. Effective January 1, 2026, the exemption amount will be \$15 million per person (\$30 million for a married couple), with annual adjustments for inflation. For asset transfers in excess of the applicable exemption amount and otherwise subject to such taxes, the highest applicable federal tax rate remains at 40%. In addition, under different rates, rules, and exemption amounts (if any), there may be state and local estate, inheritance, or gift taxes that apply in your circumstances. Please consult your own tax or legal advisor for advice pertaining to your specific situation. This material represents The Nautilus Group®'s understanding of generally applicable rules and guidelines and is for informational purposes only. The Nautilus Group, its agents, and its employees may not give legal, tax, or accounting advice. Everyone should seek and rely upon the advice of their own professional advisors and such advisors must form their own opinions on these matters based upon their independent knowledge and research. ©2018 New York Life Insurance Company. All rights reserved. These materials are prepared by The Nautilus Group®, a service of New York Life Insurance Company, and are made available to all Nautilus Group member agents and, as a courtesy, to select agents of New York Life Insurance Company. SMRU 5016027 Exp.12.31.2028



TRI WEALTH, LLC




Kirk G. Quaschnick, AEP[®], ARPC, ChFC[®], CLU[®]

Tri Wealth

14111 King Rd, Ste 520

Frisco, TX 75036

 (214) 420-7152

kirk@triwealth.com

www.triwealth.com

CA Insurance License Number 0I00890

AR Insurance License Number 1073789



Kirk G. Quaschnick, Member Agent, The Nautilus Group, a service of New York Life Insurance Company. Registered Representative offering securities through NYLIFE Securities LLC (Member FINRA/SIPC), a Licensed Insurance Agency, (14111 King Rd, Ste 520, Frisco, TX, 75036, (214) 420-7152). NYLIFE Securities LLC is a New York Life Company. Financial Adviser for Eagle Strategies LLC, a Registered Investment Adviser. Eagle Strategies LLC is a New York Life Company. Tri Wealth is not owned or operated by New York Life Insurance Company or its affiliates. Kirk G. Quaschnick, CA Insurance License Number 0I00890 and AR Insurance License Number 1073789.