

# Charitable Planning and Tax Strategies for 2022

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*PBMares Wealth Management*

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*FIDELITY Charitable*



**WEBINAR**

*July 14, 2022*

# Meet Our Panelists

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07.14.2022

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# Charitable Planning 2022

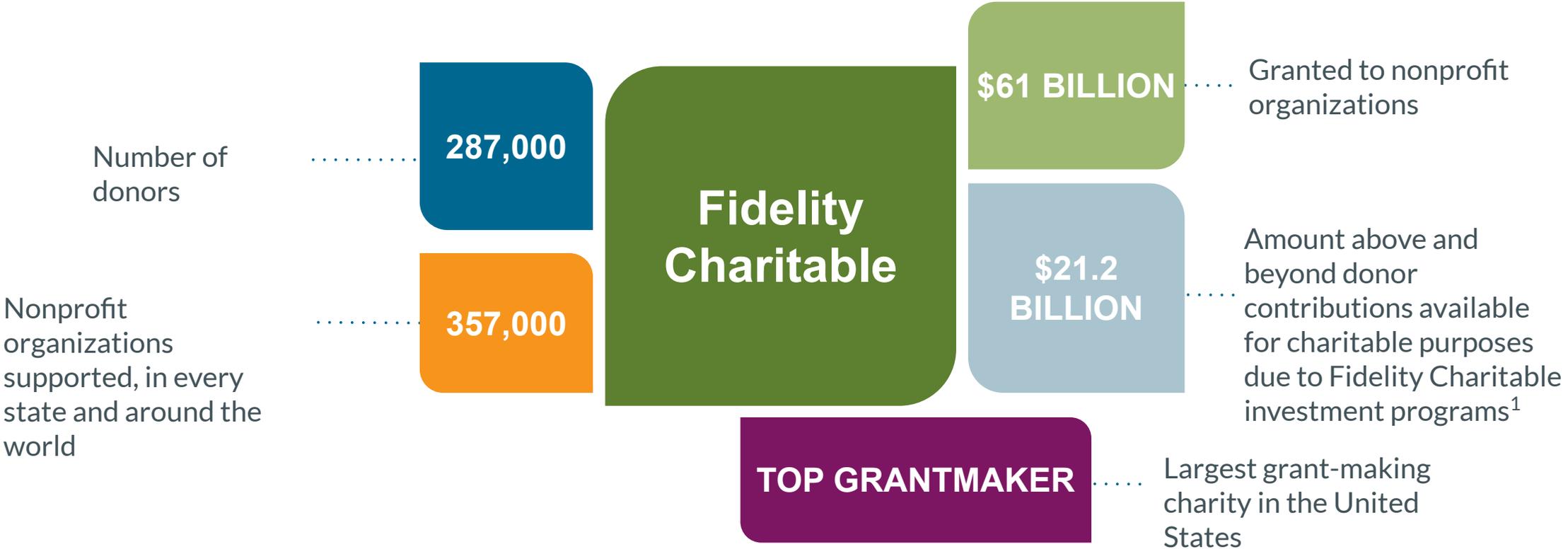
## PBMares Wealth Management

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2022

# About Fidelity Charitable®

Fidelity Charitable® is an independent 501(c)(3) public charity, established in 1991. Our mission is to grow the American tradition of philanthropy by providing programs that make charitable giving accessible, simple, and effective. The primary vehicle for reaching that goal is our donor-advised fund, called the Giving Account®.

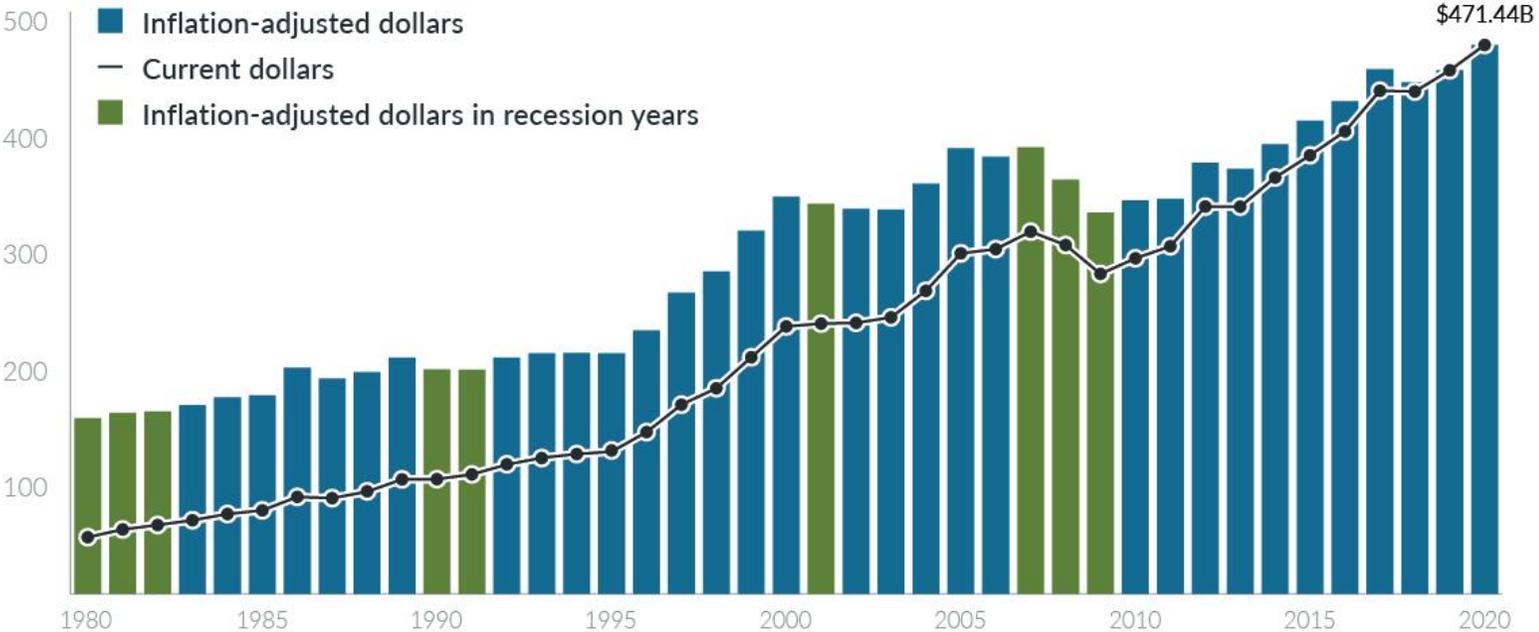


All data as of December 31, 2021

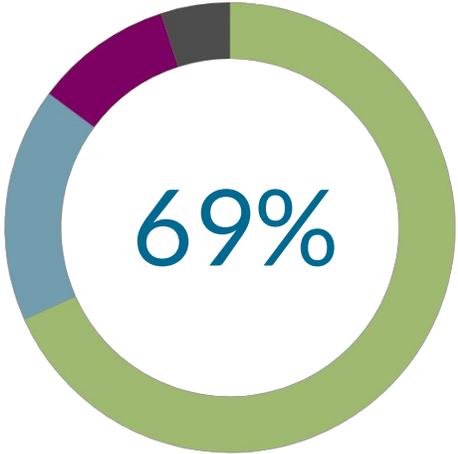
<sup>1</sup>Based on cumulative contributions since inception minus cumulative grants since inception, subtracted from current assets as of December 31, 2021

# Current Landscape of Philanthropy

## Charitable giving continues to increase<sup>1</sup>



An overwhelming majority of that giving is done by individuals<sup>1</sup>



- Individual
- Foundations
- Bequests
- Corporations

<sup>1</sup> "Giving USA 2021 Study," Lilly Family School of Philanthropy.

# Charitable tax incentives

## Income tax

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2022 Deduction limits as a percentage of Adjusted Gross Income (AGI):



### Cash

- 60% to donor-advised funds
- 30% to private foundations



### Long-term appreciated property

- 30% to public charities or private operating foundations
- 20% to private foundations

Generally, deductions exceeding these limits can be carried forward for up to five additional years

# Charitable tax incentives

## Capital gains tax

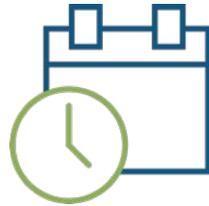
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### Short term

(owned for a year or less)

- Taxed at ordinary rates



### Long-term

- Taxed at 15% for most, 20% for those in the highest income bracket
- Additional 3.8% Medicare surtax in some cases

Eliminated when appreciated assets are contributed rather than liquidated and sold

# Charitable tax incentives

## Estate taxes

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- Federal estate tax exemption raised to \$12.06 million<sup>1</sup>
- Highest taxable rate is 40%<sup>2</sup>
- Unlimited deduction for charitable contributions

Charitable gifts made during a client's lifetime removes the assets from  
(and any future appreciation related to) their estate

<sup>1</sup> Adjusted annually for inflation

<sup>2</sup> 2022 tax rate

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# Giving Vehicles

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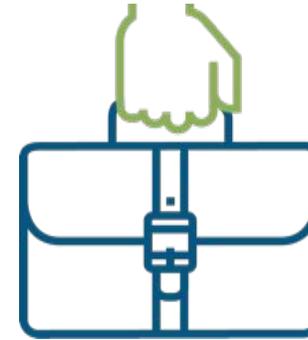
# Common giving strategies and vehicles

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## Giving While Living

- Donor-Advised Funds
- Private Foundations



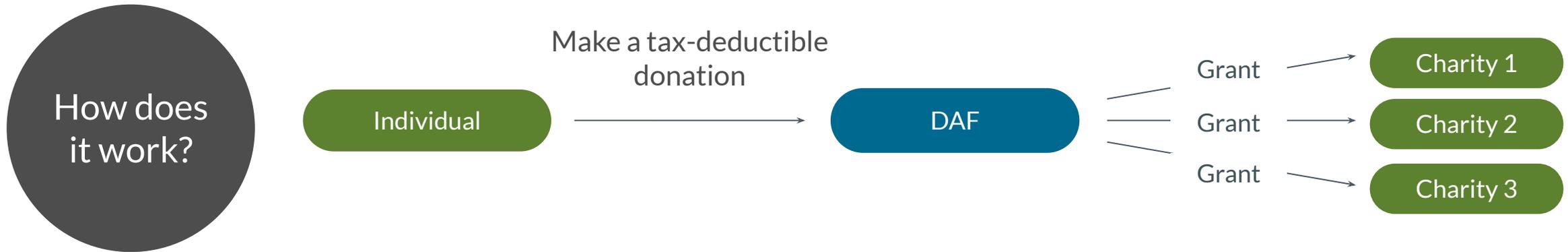
## Giving and Generating Income

- Charitable Remainder Trusts (CRTs)
- Charitable Lead Trusts (CLTs)

# Donor-advised fund (DAF)

## What is it?

A program sponsored by a public charity that allows a client to make an irrevocable charitable contribution, take advantage of an immediate tax benefit and then recommend grants from the DAF over time.



## Who's a good candidate?

Clients who want a turnkey solution to combine with low-cost, potential tax-free growth and the flexibility to support their favorite charities over time.

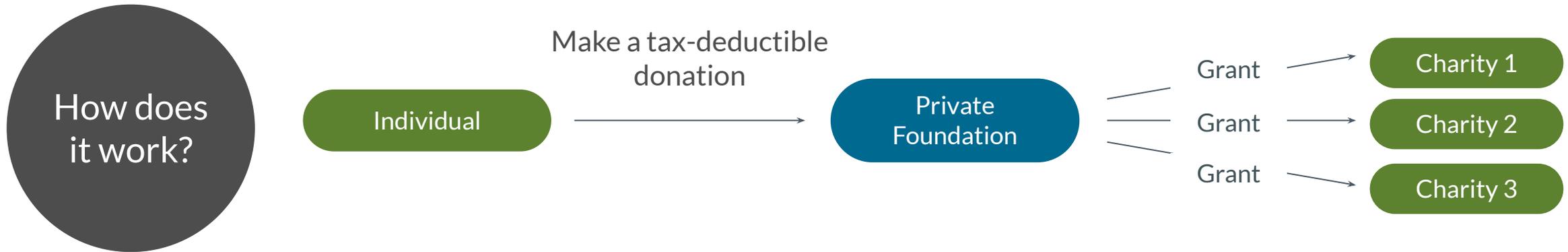
# Private foundation

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## What is it?

A separate tax-exempt entity established as a nonprofit, typically through a substantial initial gift, which must be organized and operated exclusively for charitable purposes. A board is usually named to manage the property and distribute the assets over time to charities.

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## Who's a good candidate?

Typically, HNW clients interested in operating an organization to actively manage investments, accounting and grantmaking, as well as to sponsor charitable events; will often hire staff to support the operations of a private foundation.

# Charitable remainder trust

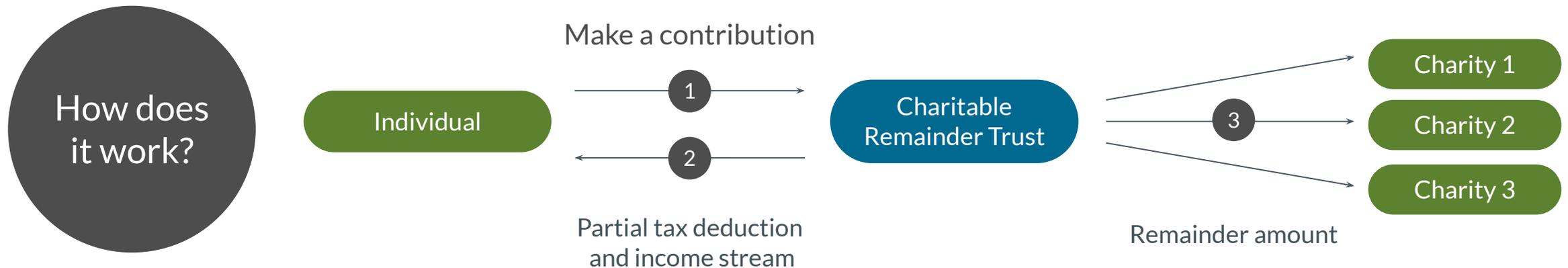
## What is it?

An irrevocable trust that generates a potential income stream for clients or their beneficiaries, with the remainder of the trust assets going to one or more charities.

## Two kinds:

**Unitrust:** Payments are a fixed percentage of trust value each year

**Annuity Trust:** Payments are a fixed dollar amount



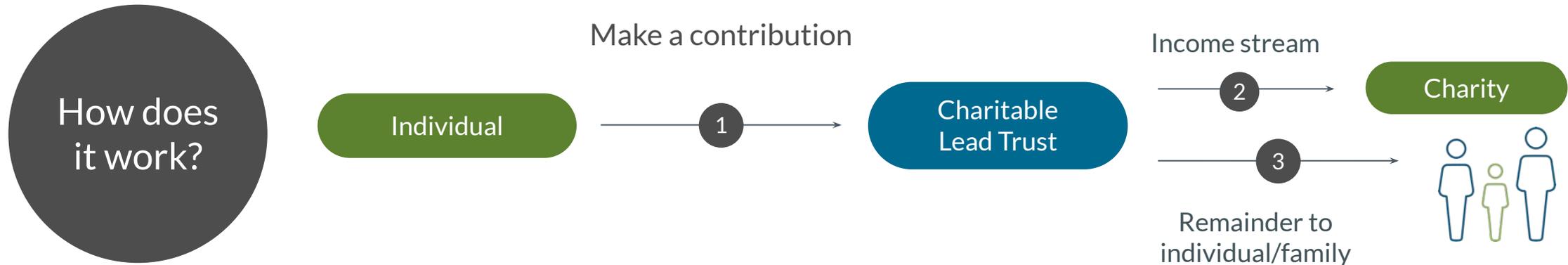
## Who's a good candidate?

Clients who want an immediate charitable deduction but also have a need for an income stream to themselves or another person. Also a good option for clients who want to provide for their heirs, with the remainder going to charities of their choosing.

# Charitable lead trust

## What is it?

An irrevocable trust that generates a potential income stream for the charity (the lead beneficiary) selected by a client, with family members or other beneficiaries serving as the remainder beneficiary of the trust's assets.



## Who's a good candidate?

Clients with sophisticated tax planning needs who want to support charities and transfer assets to their heirs.

# Giving with a donor-advised fund (DAF)

A donor-advised fund is one of the easiest and most tax-advantageous ways to give to charity

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1



## Give

### Make a tax-deductible charitable contribution

- Minimize capital gains taxes by contributing long-term appreciated assets
- Simplify recordkeeping
- Single donation can support multiple causes
- Ability to frontload and support charities over time

2

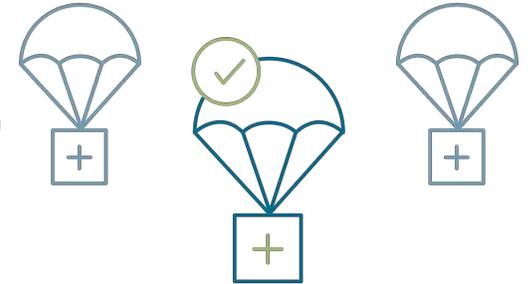


## Grow

### Contributions can be invested

- Potential for assets to grow tax-free
- Maximize support to charities

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## Grant

### Recommend grants to IRS-qualified charities

- Online capabilities
- Involve family in giving and leave a charitable legacy
- Anonymity, if desired

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# Tax Strategies

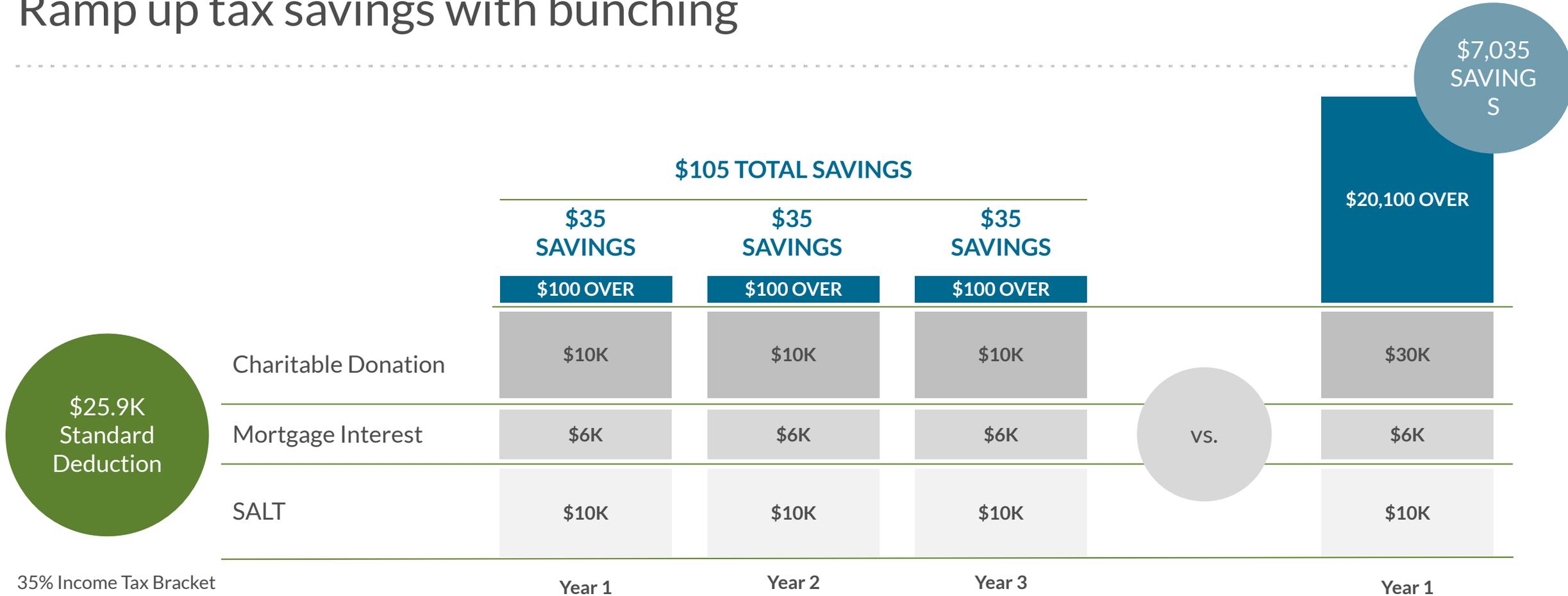
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# Bunching

## Households that itemize deductions



# Ramp up tax savings with bunching



**\$6,930\* MORE SAVED**

This is a hypothetical example for illustrative purposes only. This chart assumes a married filing jointly couple who contribute a cash gift. The tax savings referenced here are specific to the charitable donation made above the \$25,900 standard deduction. Information herein is not legal or tax advice. \*As with any tax planning strategy, there may be additional considerations that pertain to your client's personal situation. Other strategies may provide more flexibility and similar savings. Please consult your tax advisor.

\$6,930\*

MORE SAVED

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BOTTOM LINE

\*As with any tax planning strategy, there may be additional considerations that pertain to your client's personal situation. Other strategies may provide more flexibility and similar savings. Please consult your tax advisor.

# Offset a high-income year

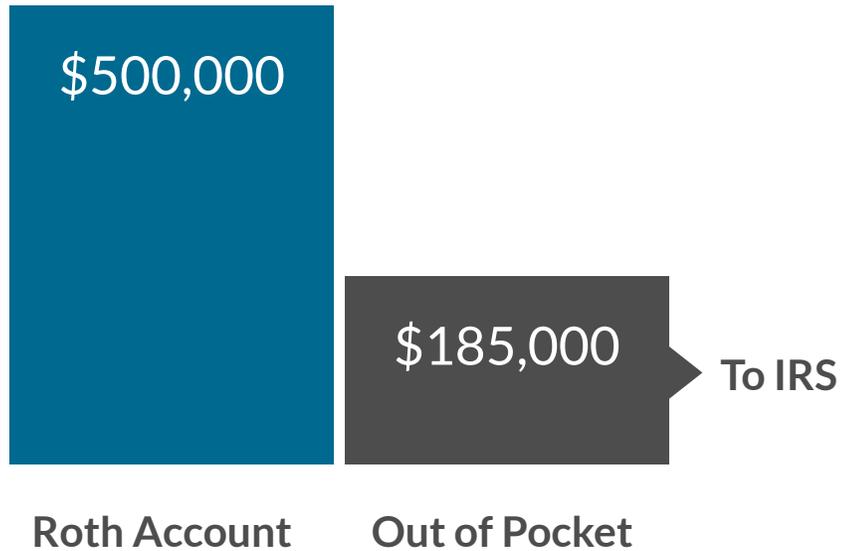
	Income tax rate	Strategy #1 Annual giving strategy	Strategy #2 Annual giving strategy
Year 1 ( <i>high-income year</i> )	37%	\$10,000	\$100,000
Year 2	24%	\$10,000	-
Year 3	24%	\$10,000	-
Year 4	24%	\$10,000	-
Year 5	24%	\$10,000	-
Year 6	24%	\$10,000	-
Year 7	24%	\$10,000	-
Year 8	24%	\$10,000	-
Year 9	24%	\$10,000	-
Year 10	24%	\$10,000	-
<b>TOTAL DONATION</b>		\$100,000	\$100,000
<b>TAX SAVINGS</b>		\$25,300	\$37,000

Additional \$11,700 (46%) in tax savings!

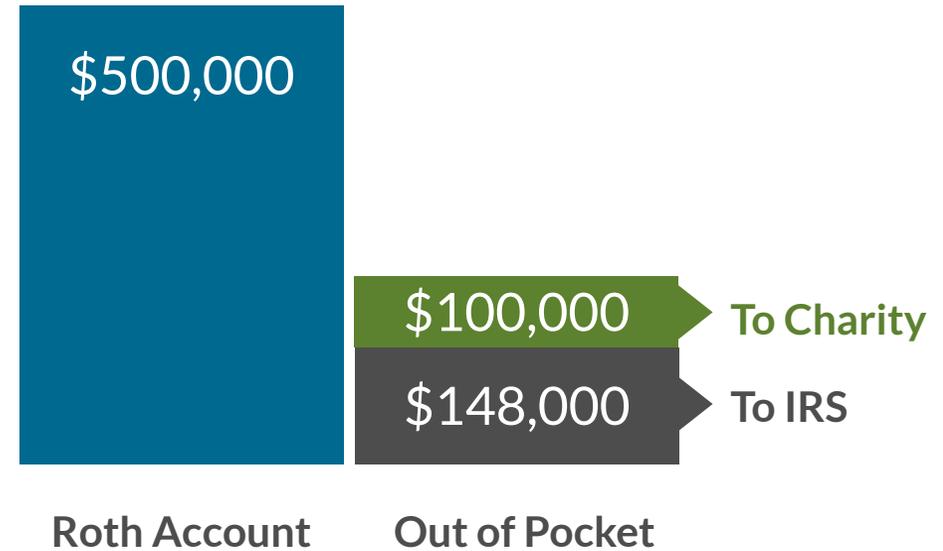
This is a hypothetical example for illustrative purposes only. This chart assumes the donor contributes a cash gift. State and local taxes and the federal alternative minimum tax are not taken into account. Information herein is not legal or tax advice.

# Reduce tax cost of a Roth conversion

Paying for a conversion  
with no charitable deduction



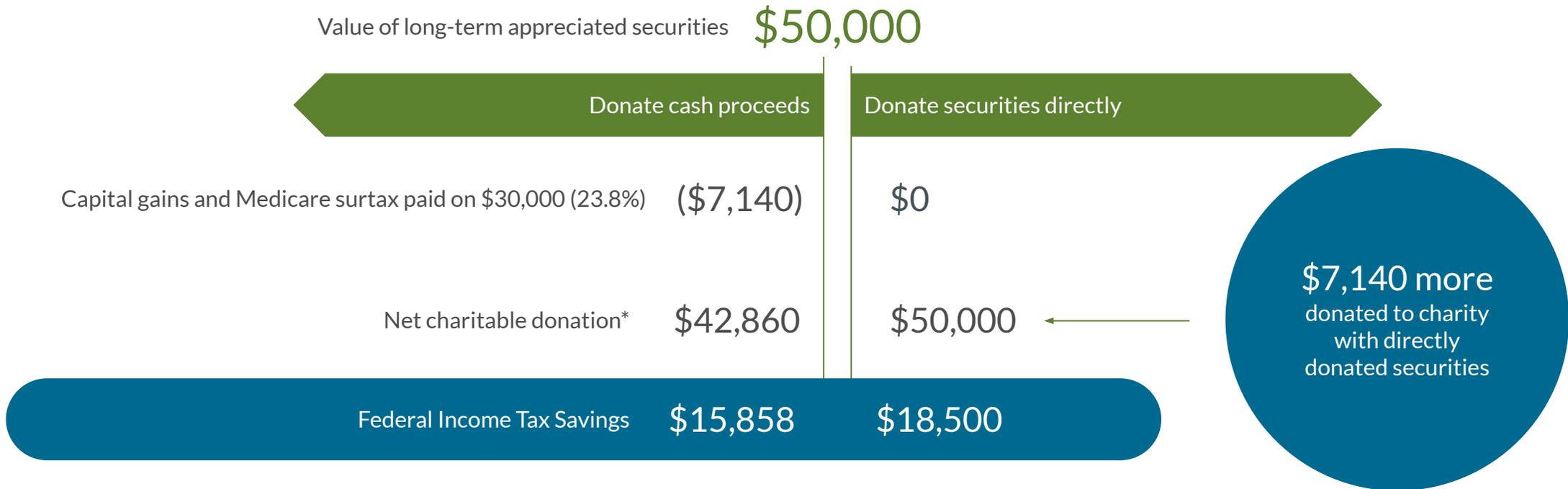
Paying for a conversion  
with a charitable deduction



Hypothetical tax amounts assume a 37% federal tax rate, a \$500,000 Roth conversion amount and a \$100,000 fully deductible charitable contribution. The federal alternative minimum tax and state and local taxes are not taken into account.

# Benefits of donating appreciated securities

- Client is in the **37%** federal income bracket
- Owns long-term (> 1 year) appreciated securities valued at \$50K with long-term unrealized gains of **\$30K** that, if sold, will be subject to the **20% capital gains and 3.8% Medicare surtax**



In addition to assumptions noted in chart, this example assumes a married couple, filing jointly, and a fully deductible donation at fair market value to a qualified public charity. It does not take into account state or local taxes, the alternative minimum tax, or limitations on deductions for taxpayers in higher income brackets. The charitable deduction is only available at the federal level if you itemize deductions. Charitable contributions of capital gain property held for more than one year are usually deductible at fair market value. Deductions for capital gain property held for one year or less are usually limited to cost basis. This is a hypothetical example for illustrative purposes only. Results will vary depending on an individual's tax situation.

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# Complex Assets

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# Examples of complex assets

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- Private Company Stock
  - S-corp
  - C-corp
- Bitcoin (and other cryptocurrencies)
- Private Equity Interests: Shares, LLC and Limited Partnership
- Restricted Stock
- Insurance Interests
- Oil and Gas Royalty Interests
- Certain Alternative Investments



<sup>1</sup> 2012 Fidelity Charitable<sup>SM</sup> "Advice & Giving" survey, conducted by Harris Interactive for Fidelity Investments<sup>®</sup> on behalf of Fidelity Charitable. Respondents who work with a paid financial advisor and have at least \$100,000 in household income and a minimum of \$1 million in investable assets, excluding their primary residence.

# Key diligence points for the charity

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Transferability

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Liquidity & Timing

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Valuation

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Risk Management

# Private business interests

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## Challenge

- Business owners may recognize a large tax liability upon the sale of equity or assets in the business

## Strategy

- A donation of some of the ownership interest provides a charitable tax deduction for the fair market value of the donated interest and minimizes capital gains exposure for the portion donated and sold by the charity rather than the business owner

## Case Study

# Giving in Advance of a Business Exit/Transition

### Situation

Jane is selling her company for \$10M. She is also philanthropic and wants to explore the best way to use this event to maximize her charitable impact while also being the most tax efficient.

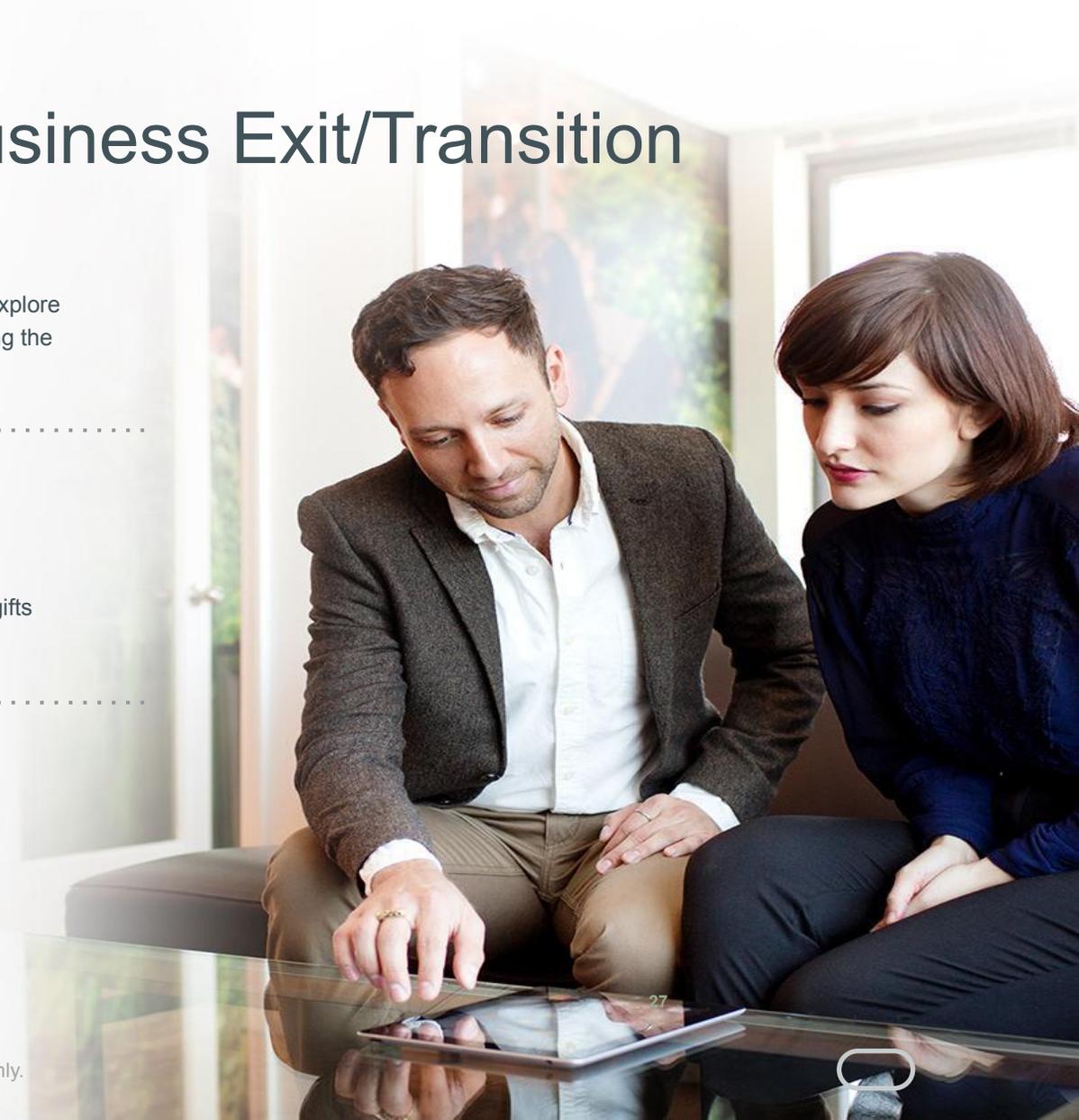
### Potential Options

Jane is exploring three possible scenarios:

- Accelerated giving – 20% after-tax proceeds
- Annual giving strategy with itemization – 10% in year 1, followed by annual gifts
- Gift of 20% equity in business – assumes all LTCCG

### Other Considerations

- What is intent v. promise to sell?
- Can charity accept this type of asset?
- What are the different tax treatments between giving vehicles?
- Independent valuation and timing of appraisal



# Considerations for donating complex assets

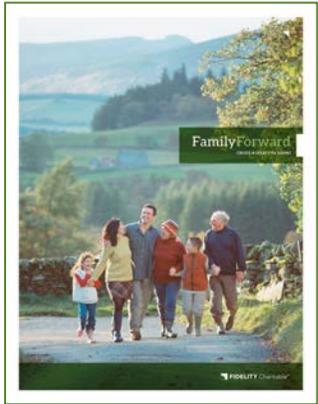
	Donor-Advised Fund (DAF) <sup>1</sup>	Directly to Public Charity	Private Foundation (PF)
<b>Tax deduction</b>	Fair market value	Fair market value	Cost basis
<b>Expertise handling complex assets</b>	Internal expertise (some may outsource)	May need to outsource—could reduce net amount	Generally outsource
<b>Deduction limitation (federal)</b>	30% of AGI	30% of AGI	20% of AGI
<b>Ability to diversify giving with one asset</b>	Multiple grants to many charities with one asset	100% of asset to one charity	Multiple grants to many charities with one asset
<b>Confidentiality</b>	Option to give anonymously on grant recommendations	May generate additional fundraising	Annual tax filings of IRS Form 990-PF is a public record of assets, contributors and grants
<b>Efficiency</b>	One point of contact for transaction	Multiple charities require multiple contacts	One point of contact for transaction

<sup>1</sup> At a 501(c)(3) public charity

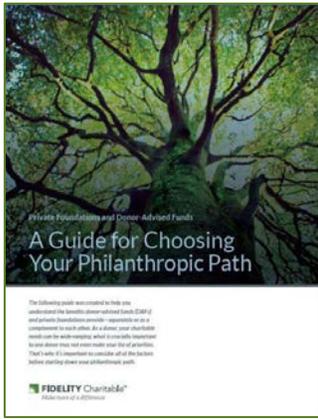
# Client resources



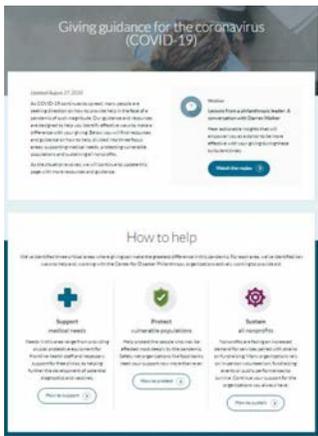
[Boost Your Giving IQ](#)



[Family Forward Guide](#)



[A Guide to Choosing Your Philanthropic Path](#)



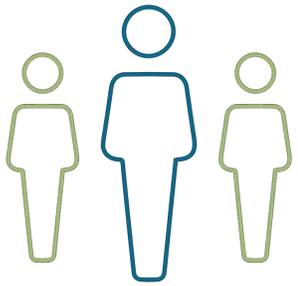
[COVID-19 Giving Guidance](#)

More guides, videos, tools and calculators at [fidelitycharitable.org](https://fidelitycharitable.org)

# Support when and where you need it

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## Fidelity Charitable's team of experts



### **In-field Experts**

provide support and guidance



### **In-house Team of Attorneys**

facilitates illiquid contributions



### **Insights and Resources**

help you grow your practice



### **Dedicated Team**

delivers premium service  
for your most generous clients

Questions?

# Contact

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