The Tax Man Has Nothing On Us:
A Deep Dive Retirement Series
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Diving Into Charitable Giving:
QCD, DAF (Donor Advised Fund), CTs (Charitable Trusts), Concentrated Stock Positions

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Objectives

- Discuss charitable giving strategies.
- Learn some of the pros and cons of philanthropy.
- Learn about the tax ramifications of charitable giving.

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Top 10 Rules for Charitable Planning Strategies

- 1. Never give cash.
- 2. Use the charitable swap.
- 3. Learn ‘bunching’ and other new tricks.
- 4. Give retirement RMD first and more at death.
- 5. Take deductions today for transfers tomorrow.
- 6. Match deductions with Roth conversions.
- 7. Buy life insurance with tax deductions.
- 8. Earn more by avoiding capital gains tax.
- 9. Grow tax free.
- 10. Maintain wealth over multiple generations.

Thanks to Russell James, PhD at Texas Tech University for his rules on charitable planning strategies.

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Rule #1 – Never give cash

Charitable giving and tax planning

Albert and Shirley

- 24% bracket
- Give $5,000 to charity
- $15,000 existing itemized deductions
- 2025 Standard Deduction is $33,200
- $5,000 donation—no federal tax benefit

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Qualified charitable distribution (QCD): **Giving after 70½***

- Up to $108K cap from IRA per person (2025)
- Must go directly to the charity
- Counts as all or part of your RMD but it is not reported as income
- No deduction for the charitable donation on income tax
- Cannot give the QCD to a private foundation or a DAF (Donor Advised Fund)
- If you convert to a Roth, you must first take the RMD, then the QCD, then convert. You cannot convert an RMD.

*Always consult a tax professional before taking action.

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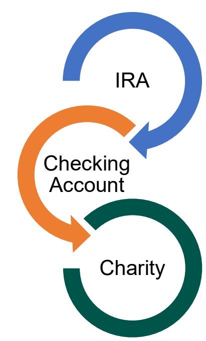
Option #1: What’s the cost of a non-QCD contribution?*

- Charity gets $5,000
- $5,000 satisfies RMD
- $5,000 is reported as taxable income
- Tax bill on distribution at 24% tax bracket equals $1,200
- Total cost of charitable contribution: $6,200



*Always consult a tax professional before taking action.

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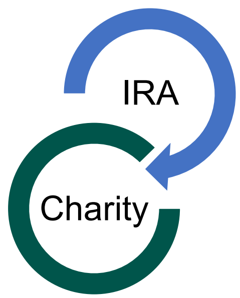
Option #2: What's the cost of a QCD contribution?*

- Charity gets $5,000
- $5,000 satisfies RMD
- $5,000 is EXCLUDED from taxable income
- Tax bill on distribution equals $0
- Total cost of charitable contribution: $5,000–a $1,200 saving from the non-QCD option



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Questions

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Community Foundation

- Tax-exempt, nonprofit, publicly supported and non-sectarian philanthropic institution that builds permanent funds to support the charitable interests of donors.
- Often geographically oriented (your town or region).
- Chartered Advisor in Philanthropy (CAP®) will help you determine what is your best course of action.
- Manage the donated assets to provide funding for the charities or causes donors have specified.
  - Must be 501(c)(3) charities.

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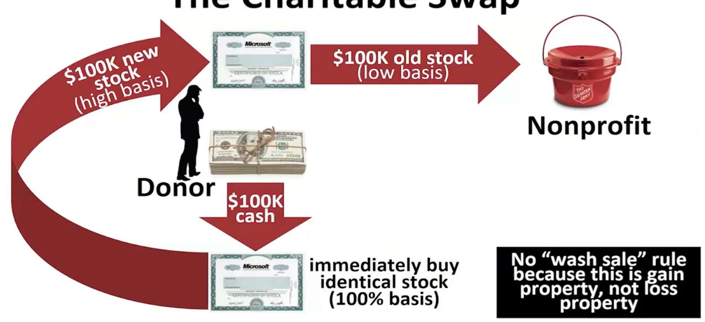
Rule #2 - Use The Charitable Swap

No need to change your portfolio!

The Charitable Swap



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But What If . . .?

- "I plan on keeping this asset for a step-up in basis."
- Be humble. You cannot know the future.
- Will there be step-up in basis 10, 20, or 30 years from now?
- What will capital gains rates be? Brackets?
- Sunset of other tax breaks.
- Tax on net worth?
- More tax efficient to give appreciated assets than to write a check.

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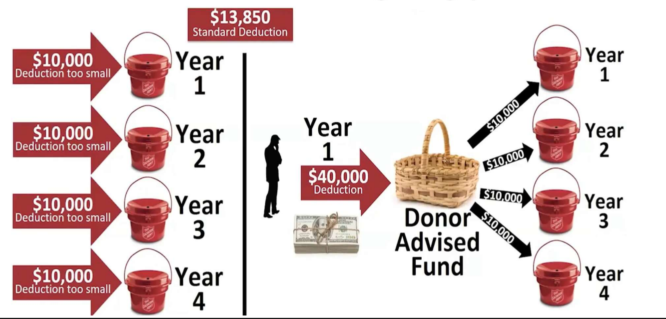
Rule #3 – Use 'Bunching' and Other Tricks

For non-itemizers, consider bunching donations into BIG giving years



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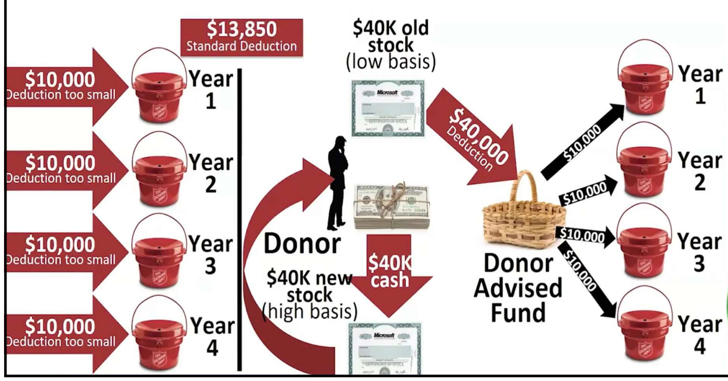
Smarter bunching with asset gifts



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Rule #4 – Give Retirement RMD First and More at Death

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IRA(child); House(charity)	IRA(charity); House(child)
$1,000,000 House **$1,000,000 to charity**	$1,000,000 IRA **$1,000,000 to charity**
$1,000,000 IRA -$370,000 (37% federal income tax) -$144,000 (14.4% California state income tax) **$486,000 to child**	$1,000,000 House -$0 (no income tax) **$1,000,000 to child**

SECURE now requires faster withdraw (10 years)

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What Else Can I Do?

Leaving the IRA to family with a stretch CRT

PROBLEM

- The non-spouse IRA beneficiary must take it all out (and pay taxes) within 10 years
- These withdrawals may have to start immediately
- Limits tax deferral and tax-free growth

SOLUTION

- Naming a Charitable Remainder Trust (CRT) avoids this limit
- The IRA pays to the CRT with no taxes
- Tax-free growth continues inside the CRT
- Family members pay taxes only on their CRT income which can last for life

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Retirement plan charitable beneficiaries

- A public charity
- A private family foundation
- A charitable remainder trust

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Easy answers to a misunderstood issue

Problem? Charities are not "designated beneficiaries," so might accelerate RMDs for other beneficiaries.

No problem! Solutions:

- Payout charity share before September 30 of year following participant death.[1]
- Beneficiaries can separate accounts by end of year following participant death.[2]
- If spouse is beneficiary, simply roll that share into spouse's IRA
- Separate IRAs into a 100% charitable and 100% non-charitable account before death (+ RMDs can be taken from either to match desired plans)

Non-eligible designated beneficiaries such as non-persons (Charities) have a 5-yr timeline.

1. Treas. Reg. sec. 1.401(a)(9)-4 Q&A 4(a) 2. Treas. Reg. sec. 1.401(a)(9)-8 Q&A 2(a)

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Questions

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#5 – Deduction Today for Transfers Later

- Retained Life Estate Deed
  - Deeds inheritance rights for a piece of real estate to someone or something else (charity).
  - Donating inheritance rights to personal residences or farmland with a retained life estate deed creates an immediate charitable tax deduction.
  - **This is an irrevocable decision.** Transferred by recording a deed (not a trust or contract).
    - e.g., “To John A. Donor for life, remainder to XYZ Charity, Edmond, OK 73013”

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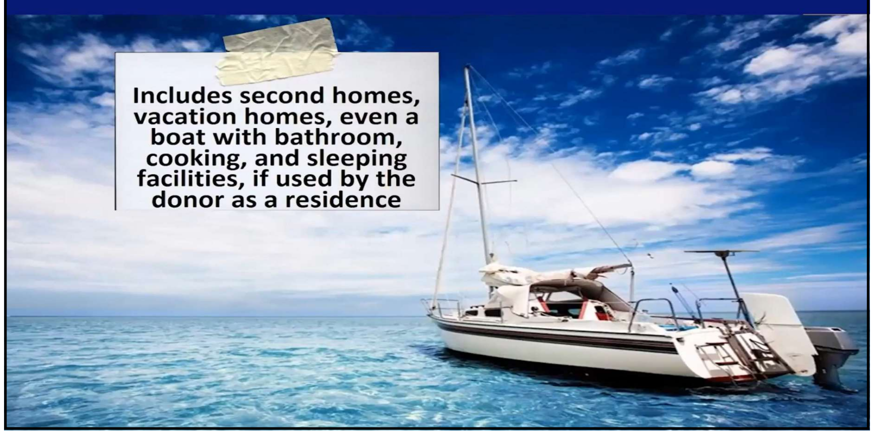

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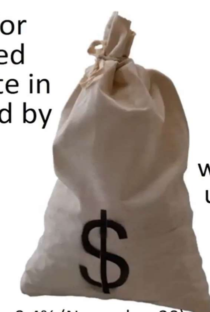
Size of Deduction Depends . . .

Charitable deduction for remainder interest deed with retained life estate in $1,000,000 of farmland by age 55 donor

11.6% (May 89)

$122,350



0.4% (November 20)

$903,710

Some people use the tax savings to buy life insurance for heirs who weren’t going to use the farm or house anyway

1% = $779,640
2% = $616,350
3% = $494,000
4% = $401,310
5% = $330,320

*Refer to Section 7520 of the IRS tax code for current rate.

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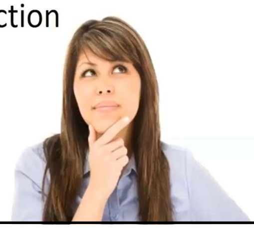
Leaving land to charity **by will**

- Revocable
- $0 income tax deduction



Leaving land to charity **by retained life estate deed**

- Irrevocable
- Immediate income tax deduction
- Immediately increases donor's available cash by lowering taxes

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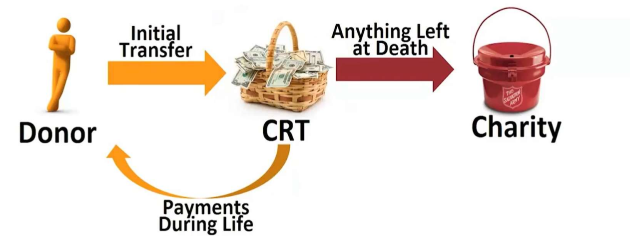
Charitable Remainder Trusts generate an immediate tax deduction, even though donor can manage assets and receive income for life



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Questions

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Rule #6 - Those Roth Conversions

Where can I find offsetting deductions?

Put money into a
- Charitable remainder trust
- Charitable lead trust (grantor)
- Charitable gift annuity
- Donor advised fund
- Private foundation

Or give a remainder interest in a residence or farmland to a charity

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Donor Advised Fund - DAF

- Simple, efficient, flexible.
  - Avoids administrative annoyances.
  - You choose organizations and amounts.
  - Alternative to private foundation.
- Can continue past your death.
  - Engage your family in philanthropy.
  - Make your focus clear.
- Offset tax on a Roth Conversion with a DAF contribution from a taxable account.

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Charitable Gift Annuity - CGA

- Easy to set up. Lower minimum than a trust. Can add to the CGA over time if you use taxable funds.
- Can use IRA money to fund the CGA one time only.
  - $54,000 in 2025. Adjusts for inflation. Counts towards QCD.
- Fixed payments to donor, based on annuity rate set at the time of the gift, age dependent.
- Can delay the start of the payments.
- Backed by the charity's assets. Choose carefully.
- Immediate charitable income tax deduction if you use taxable account funds.

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Watch Your Unused Deductions

- Charitable deductions may be limited (with five-year carryover) to 20%, 30%, 50%, or 60% of income depending on gift and recipient.
- Pull future income forward into current year.
- Large Roth conversion.

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Questions

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Rule #7 - Buy Life Insurance with Tax Deductions

- Giving your assets to a charitable trust leaves less for your heirs.
- Use the trust income to buy a life insurance policy with a value 50% of what you gave to charity. Since it is tax-free to beneficiaries it's close to being an equivalent.
- Use an Irrevocable Life Insurance Trust (ILIT) as Owner of the policy if you have a taxable estate.

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John, age 65, at 37% income tax rate, owns $100,000 of farmland which he would like to use for the rest of his life then leave to charity, but he also wants to benefit his heirs

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Giving the remainder interest to charity creates a deduction the value of which will purchase a paid-up policy of about $50,000+.
John keeps lifetime use of farm
Charity gets 100% of farm at death
Heirs get $50,000+ (estate tax free)

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Rule #8 – Earn More By Avoiding Capital Gains Tax

- You hold a large, highly appreciated asset that generates little income (vacant land, non-dividend paying stock).
- How can you convert it to income generating property?

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Option 1

- Sell the asset.
- Pay capital gains tax.
- Earn income on the remaining amount.

$1,000,000 stock
$1,000,000 gain (assume zero basis)
$238,000 tax (23.8% fed + ?% state)
$762,000 left to invest

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Option 2

- Transfer the asset to a Charitable Remainder Trust (CRT).
- Earn income for life on the full amount.

$1,000,000 stock
$1,000,000 gain
$0 tax (CRT pays no tax)
$1,000,000 left to invest

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Our Example

- Priscilla wants to sell a $1M non-income producing zero basis asset then spend the interest income of 5% while leaving principal for heirs.
- Federal tax rate: Capital gains – 23.8%.
  Income tax on the interest – 37%.
  Estate tax (?) – 40%.

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Comparison of Results with a Charitable Remainder UniTrust

Sale

$1,000,000 asset
-$238,000 capital gains tax

Client uses $38,100/year
($762,000 X 5% return)

Heirs receive $457,000
($762,000-$304,800 est. tax)

CRUT

$1,000,000 asset
$0 capital gains tax

$1,000,000 in 5% unitrust pays $50,000 annually + a charitable tax deduction of $300,000 worth $111,000

+ ILIT

Client pays $111,000 initially and $10,000 annually for a $400,000 ILIT-owned policy (including post-crummey gift taxes)

Client uses $40,000/year

Charity receives $1,000,000 remainder

Heirs receive $400,000
(tax free from ILIT)

Here's that ILIT idea again.

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Questions

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Rule #9 – Grow Tax-Free

- Growth inside a DAF is tax-free. You enlarge your gifts.
- Growth inside a CRT is tax-free. Only distributions are taxed.
- Growth inside a private foundation is tax-limited (1.39% rate).
- Your advisor can manage the investments. Their fee may soon have to be paid by a taxable account outside of the DAFs. Lots of push back.

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Which Is Better For Heirs?

•3M simulations run.
•Age 60 male & 55 female.
•Varying life spans.
•Vary returns w/ LgCap std. dev.
•Start at 2.8% consumption then adj. for inflation.
•20% basis asset.

Direct Investment (No Charitable Gift)	Max Payout CRUT
(run out of money) **Failure 9.9%**	(any payment below projected consumption) **Failure 7.9%**
(Average PV of initial $) **Consumed 52.88%**	(Average PV of initial $) **Consumed 53.10%**
(Average PV of initial $) **for Heirs 47.12%**	(Average PV of initial $) **for Heirs 61.48%**

Yeoman, John C. (2014). The economics of using a CRT to fund a retirement portfolio. The Journal of Wealth Management, p 40-50.

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Rule #10 – Maintain Wealth Over Multiple Generations

- Generational wealth is difficult.
  - The government takes a chunk of the assets at each generation.
  - The rest is divided into smaller pools for more beneficiaries.
  - The government then takes a chunk of all subsequent earnings.
  - At some point you will have a greedy, spendthrift heir.

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A donor advised fund or private foundation holds money and distributes charitable grants

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Multi-generational management

Inheritance
- Small pools after division by 1/n children and estate tax
- Taxation at each generational transfer
- Taxation on all earnings
- Risk of greedy spendthrift heirs

Private Foundation/DAF
- Big pool with no division
- No estate tax
- No capital gain tax
- No or minimal income tax
- Family management (soft power)

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Questions

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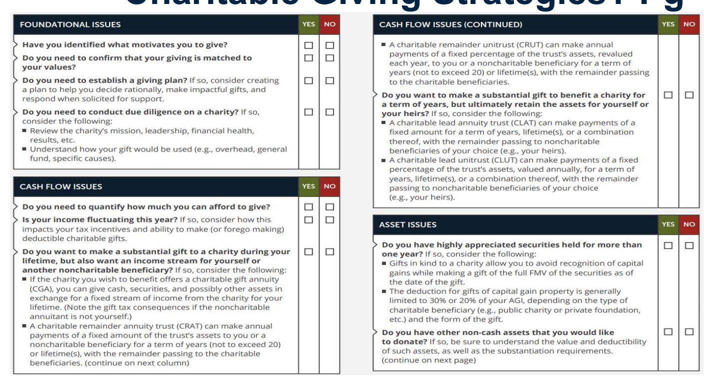
What Issues Should I Consider With Charitable Giving Strategies? Pg 1



FOUNDATIONAL ISSUES	YES	NO
Have you identified what motivates you to give?	☐	☐
Do you need to confirm that your giving is matched to your values?	☐	☐
Do you need to establish a giving plan? If so, consider creating a plan to help you decide rationally, make impactful gifts, and respond when solicited for support.	☐	☐
Do you need to conduct due diligence on a charity? If so, consider the following: ■ Review the charity's mission, leadership, financial health, results, etc. ■ Understand how your gift would be used (e.g., overhead, general fund, specific causes).	☐	☐

CASH FLOW ISSUES	YES	NO
Do you need to quantify how much you can afford to give?	☐	☐
Is your income fluctuating this year? If so, consider how this impacts your tax incentives and ability to make (or forego making) deductible charitable gifts.	☐	☐
Do you want to make a substantial gift to a charity during your lifetime, but also want an income stream for yourself or another noncharitable beneficiary? If so, consider the following: ■ If the charity you wish to benefit offers a charitable gift annuity (CGA), you can give cash, securities, and possibly other assets in exchange for a fixed stream of income from the charity for your lifetime. (Note the gift tax consequences if the noncharitable annuitant is not yourself.) ■ A charitable remainder annuity trust (CRAT) can make annual payments of a fixed amount of the trust's assets to you or a noncharitable beneficiary for a term of years (not to exceed 20) or lifetime(s), with the remainder passing to the charitable beneficiaries. (continue on next column)	☐	☐

CASH FLOW ISSUES (CONTINUED)	YES	NO
■ A charitable remainder unitrust (CRUT) can make annual payments of a fixed percentage of the trust's assets, revalued each year, to you or a noncharitable beneficiary for a term of years (not to exceed 20) or lifetime(s), with the remainder passing to the charitable beneficiaries.		
Do you want to make a substantial gift to benefit a charity for a term of years, but ultimately retain the assets for yourself or your heirs? If so, consider the following: ■ A charitable lead annuity trust (CLAT) can make payments of a fixed amount for a term of years, lifetime(s), or a combination thereof, with the remainder passing to noncharitable beneficiaries of your choice (e.g., your heirs). ■ A charitable lead unitrust (CLUT) can make payments of a fixed percentage of the trust's assets, valued annually, for a term of years, lifetime(s), or a combination thereof, with the remainder passing to noncharitable beneficiaries of your choice (e.g., your heirs).	☐	☐

ASSET ISSUES	YES	NO
Do you have highly appreciated securities held for more than one year? If so, consider the following: ■ Gifts in kind to a charity allow you to avoid recognition of capital gains while making a gift of the full FMV of the securities as of the date of the gift. ■ The deduction for gifts of capital gain property is generally limited to 30% or 20% of your AGI, depending on the type of charitable beneficiary (e.g., public charity or private foundation, etc.) and the form of the gift.	☐	☐
Do you have other non-cash assets that you would like to donate? If so, be sure to understand the value and deductibility of such assets, as well as the substantiation requirements. (continue on next page)	☐	☐

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What Issues Should I Consider? Pg 2

ASSET ISSUES (CONTINUED)	YES	NO
Do you have a traditional IRA, and are you over age 70.5? If so, consider making a Qualified Charitable Contribution (QCD) of up to $108,000 (per tax year), which would be excluded from taxable income. If you are subject to taking RMDs, a QCD can count toward satisfying your RMD. Note the "first dollars out" rule.	☐	☐
Do you have time and/or skills that you can contribute? If so, you may not take a deduction for the value of your services; however, you may be able to deduct unreimbursed expenses that you incur as a direct result of services you perform.	☐	☐

TAX ISSUES	YES	NO
Did/will you make charitable gifts this year? If so, consider the following: ■ Any cash gift must be substantiated by financial statements or written confirmation from the charity. Cash gifts of $250 or more must be supported by a contemporaneous written acknowledgment (CWA) from the charity. ■ Generally, noncash gifts of more than $500 require the filing of Form 8283 (in addition to a CWA for noncash gifts of more than $250). Noncash gifts of more than $5,000 must also be supported by a qualified appraisal (unless an exception applies, e.g., for publicly traded securities, vehicles, etc.). For noncash gifts exceeding $500,000, the qualified appraisal must be filed with your 1040.	☐	☐
Did you receive anything of value in exchange for a charitable gift? If so, you may take a deduction to the extent that your gift exceeds the FMV of the goods or services you received in return. A charity must provide to you a written disclosure if you make a quid pro quo gift of $75 or more.	☐	☐
Do you want to make completed gifts for income tax purposes this year, but delay/spread the distributions to charities over multiple years? If so, consider the following: ■ A donor advised fund (DAF) allows you to make a gift and take an immediate charitable deduction while delaying delivery of the funds to the charities of your choosing. (continue on next column)	☐	☐

TAX ISSUES (CONTINUED)	YES	NO
■ You can use a DAF to "bunch" several years of gifts in one tax year, taking advantage of the itemized charitable deduction when your gifts might have otherwise been covered by the standard deduction. You can then spread the grants from your DAF over future years to smooth the impact to the charities.		
Do you need help determining the deductibility of your gift(s)? If so, consider the following: ■ Charitable gifts are itemized deductions (deductible to the extent that they exceed the standard deduction). ■ If your charitable gifts are less than 20% of your AGI, you can generally take a full deduction. Above this threshold, there are several deduction limitation categories, including 60%, 50%, and 30% of your AGI, which may apply depending upon the nature of the charitable gift and beneficiary. ■ Excess deductions can be carried forward for five years.	☐	☐
Does your taxable estate exceed your unused federal estate and gift tax exclusion amount (maximum $13.99 million or $27.98 million if you are married)? If so, consider incorporating charitable gifts in your estate plan to reduce your federal estate tax liability.	☐	☐

OTHER ISSUES	YES	NO
Do you wish to remain anonymous?	☐	☐
Do you need to review your gifting history and impact?	☐	☐
Do you want to impose restrictions on the use of gifted assets? If so, consider earmarking your funds for a specific use, cause, or initiative (provided that you don't jeopardize the gift's deductibility).	☐	☐
Have you signed a pledge agreement under which you are fulfilling annual promises? If so, consider funding (or pre-funding) your pledges when the market is up.	☐	☐

Protecting Your Portfolio

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Common Charitable Giving Vehicles

	DONOR ADVISED FUND (DAF)	CHARITABLE LEAD TRUST (CLT)[1]	CHARITABLE REMAINDER TRUST (CRT)[1]	POOLED INCOME FUND (PIF)	CHARITABLE GIFT ANNUITY (CGA)
VEHICLE TYPE	Dedicated Charitable Fund	Irrevocable Trust	Irrevocable Trust	Irrevocable Trust	Lifelong Annuity Contract
WHAT DOES THIS VEHICLE DO?	A DAF gives donors full control over when and how much they distribute to a charity, while also providing a tax deduction	A CLT pays a stream of income to a charity for a defined period, leaves a death benefit to a person, and provides a tax deduction	A CRT pays a stream of income to a person for a defined period, leaves a death benefit to a charity, and provides a tax deduction	A PIF pays a stream of income to a person for a defined period, leaves a death benefit to a charity, and provides a tax deduction	A CGA pays a stream of income to a person for a defined period, leaves a death benefit to a charity, and provides a tax deduction
WHY MIGHT SOMEONE CONSIDER CHOOSING THIS VEHICLE?	Can keep assets invested with your custodian/advisor while maintaining control over the timing and amount of distributions	Removes assets from being subject to the estate tax while preserving/growing a legacy value to heirs (for nongrantor trusts only)	More privacy and control over the management of the trust (when compared to a PIF)	Potential for higher income (though less predictable), and allows for younger income beneficiaries	Actuarially derived income calculation, which may be suitable to those with good health and longevity
WHO RECEIVES THE INCOME/DISTRIBUTIONS?	The charity	The charity	The donor, family, or heirs	The donor, family, or heirs	The donor, family, or heirs
WHO RECEIVES THE DEATH BENEFIT?	The charity	The donor, family, or heirs	The charity	The charity	The charity
WHO RECEIVES THE TAX DEDUCTION?	The donor	Grantor: The donor Nongrantor: The trust	The donor	The donor	The donor
ARE ADDITIONAL DEDUCTIBLE CONTRIBUTIONS ALLOWED?	Yes	CLUT: Yes CLAT: No	CRUT: Yes CRAT: No	Yes	No
CAN IT BE FUNDED WITH A QCD?	No	No	Yes, subject to limitations	No	Yes, subject to limitations
DO I HAVE CONTROL OVER THE UNDERLYING INVESTMENTS?	Yes	Yes	Yes	No	No
DO I HAVE CONTROL OVER THE TIMING/AMOUNT OF DISTRIBUTIONS?	Yes	CLUT: Yes CLAT: No	CRUT: Yes CRAT: No	No	No
IS THE INCOME FIXED, FLEXIBLE, OR VARIABLE?	Flexible	CLUT: Variable CLAT: Fixed	CRUT: Variable CRAT: Fixed	Variable	Fixed

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Pg 2 Common Charitable Giving Vehicles

	DONOR ADVISED FUND (DAF)	CHARITABLE LEAD TRUST (CLT)[1]	CHARITABLE REMAINDER TRUST (CRT)[1]	POOLED INCOME FUND (PIF)	CHARITABLE GIFT ANNUITY (CGA)
IS THERE A REQUIRED MINIMUM AGE FOR INCOME BENEFICIARIES?	N/A	N/A	Yes	No	Yes
WHO SETS THIS VEHICLE UP?	A custodian	An attorney	An attorney	A nonprofit organization or custodian	A nonprofit organization
IS A SEPARATE TAX RETURN REQUIRED?	No	Yes	Yes	Yes[2]	No
WHAT IS THE AMOUNT OF THE TAX DEDUCTION?	The contribution amount	Grantor: The present value of the charitable interest Nongrantor: The gross income distributed each year	The present value of the remainder interest	Calculated based on several variables[3]	The contribution less the present value of the payments that will be made to the annuitant
WHEN DOES INCOME/ DISTRIBUTIONS BEGIN?	Flexible	Immediately	Immediately	Immediately	Immediately or Deferred
IS THE INCOME/ DISTRIBUTION TAXABLE?	No	"Excess income" generated is taxable to the trust	Yes	Yes	Yes
HOW IS THE INCOME TAXED?	N/A	Taxable at trust rates	Variable and complex taxation rules[4]	Fully taxable as ordinary income	Pro rata taxation until basis is recovered, then fully taxable[5]
HOW MUCH INCOME IS PAID OUT?	Flexible	Fixed percentage of the FMV CRUT: Valued annually CLAT: Valued at inception	5–50% of the FMV CRUT: Valued annually CRAT: Valued at inception	The PIF pays out all income generated anually	Determined actuarially (e.g., age, sex, single, joint, etc.)
HOW LONG DOES THE INCOME LAST?	Flexible	(1) Over the lifetime of an individual (or individuals) (2) A set period of years	(1) Lifetime (single or joint) (2) Fixed term (1–20 years)	Over the lifetime of an individual (or individuals)	Lifetime (single or joint)
IS THE DEATH BENEFIT TAXED?	No	Grantor: Yes, estate tax Nongrantor: No	No	No	No

[1] In general, a charitable unitrust (e.g., CRUT, CLUT) may give one more control and flexibility, while an annuity trust (e.g., CRAT, CLAT) may give one more predictability toward a specific desired outcome. However, the factors behind such a decision are complex and may require the assistance of a professional (i.e., an attorney).
[2] While a PIF does require an annual tax return to be filed, this is generally handled by the charity that is running the PIF.
[3] The tax deduction amount for a PIF is determined by several factors (e.g., FMV of gift, IRS-determined rate of return, number of income beneficiaries, ages of beneficiaries, etc.).
[4] The taxation of CRT distributions follows a complex hierarchy that first taxes certain types of income before taxing other types of income (e.g., ordinary income, capital gains, tax-free, principal, etc.).
[5] Income from a CGA is derived via annuitization and consists of gains (taxed as ordinary income) and basis (nontaxable). It becomes fully taxable as ordinary income once the basis is recovered.

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Strategies To Consider

- Bunch deductible expenses: taxes, medical, contributions.
  - Pay your property taxes using bunching in alternating years.
  - Roth conversions in a year you have low income or large medical expense.
  - Bunch your contributions using the same schedule you use for property taxes.
  - Front load a Donor Advised Fund (DAF) with your local Community Foundation.

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Summary

- We've covered the top 10 rules for tax planning using charitable vehicles.
- We've briefly introduced some of these vehicles.
- We've cemented the 2 things we can accomplish with charitable giving.
- We've stressed talking with our Community Foundation, CPA and CFP about this.
- We're ready to combine this with other tax strategies if appropriate.

Protecting Your Portfolio

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Questions

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