Your Guide to EFFECTIVE GIVING

After Tax Reform

In December 2017 Congress enacted the most comprehensive tax law changes in more than 30 years. The goal of the legislation was to reduce taxes while simplifying the tax code through a combination of lower rates and the repeal or reduction of many longstanding deductions.

Fortunately, there is good news for many who enjoy making charitable gifts. The charitable deduction was the only widely-used deduction that was not limited under the new law. In some cases, the tax benefits of making charitable gifts were even expanded.

Read on for ideas to help you make your charitable gifts most cost-effectively under the new tax law.

Making gifts now

Giving cash by check, credit card or other means of transfer is the most common way to make charitable contributions. The new tax law continues to encourage gifts of cash and expands the limit on the amount you can deduct.

In the past, gifts of cash could eliminate tax on up to 50% of your adjusted gross income (AGI) each year. This amount was increased to 60% under the new law.

Any amounts not deductible in a given year can be used to reduce your income taxes for up to five additional years.

If you itemize deductions, your charitable gifts may reduce your federal income taxes, as well as state income taxes, if applicable. Your actual savings depend on your income tax rate and other factors.

Another very positive change in the new tax law was the repeal of a provision that required higher income taxpayers to reduce their itemized deductions by a percentage of their income, which caused some donors to lose up to 80% of the value of their deductions.

If you were affected by this limitation, you will enjoy the full value of your deductions for 2018 and beyond.

Maximizing tax savings going forward

Generally, the higher your tax bracket, the greater the savings from your charitable gifts.

To experience the full tax benefits of your gifts, however, you must have total deductions greater than the standard deduction amount you are allowed to subtract from your income whether or not you itemize your deductions.

When your deductible mortgage interest, allowable state taxes, charitable gifts and other deductions exceed this standard deduction, you can deduct the larger sum. Your charitable gifts will then be deductible, and you will owe no federal tax on the amount deducted.

As in the past, it may be wise to increase the amount of your charitable gifts in a particular year to ensure you will continue to enjoy the benefits from itemizing your mortgage interest, state taxes and other deductible expenses. The same is true if you expect to be in a lower tax bracket in the future.

Check with your tax advisor when considering the amount and timing of your charitable gifts to determine what would be best for you.

Giving securities

With the strong performance of investment markets in recent years, it may be particularly advantageous to make gifts of securities.

If you own stocks, mutual funds or other securities that have increased in value, and you have owned them for more than one year, it can be wise to use them to make charitable gifts.

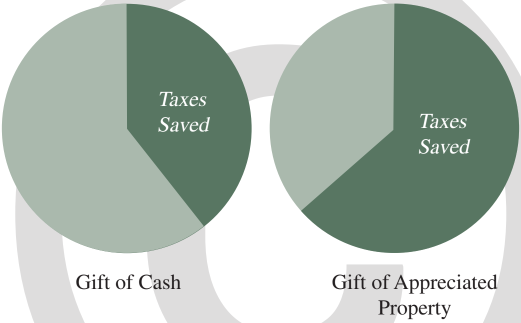
The new law retained the special tax benefits that come with making charitable gifts in this way.

You may still claim a deduction for their full market value, not just the amount you paid, and you do not have to pay capital gains tax that would be owed if you sold those securities and donated the proceeds.

The combined savings of both regular income tax and capital gains tax can make giving securities especially attractive. This opportunity is available to everyone, whether or not they itemize their deductions.

Giving securities that have increased in value but yield little income can also be a way to make meaningful gifts and enjoy additional tax savings while experiencing little or no reduction in your spendable income.

Tax Savings for Cash Versus Noncash Gifts



As in the case of gifts of cash, gifts of appreciated securities can serve to boost your itemized deductions above the standard deduction amount, allowing you to also enjoy tax savings from other deductible expenses.

Gifts of appreciated securities may be deducted and eliminate tax on up to 30% of your AGI. You can claim any excess deductions for up to five future tax years.

When securities have decreased in value

If the value of a security is less than its cost, it is usually best to sell that security and make a charitable gift of the cash proceeds.

You may then be able to take deductions for both the capital loss and the charitable gift, effectively deducting more than the current value of the security.

Give a security and "keep" it

What if you are hesitant to give a security that has increased in value because you believe its value may continue to grow?

In that case, instead of giving cash, it may be more effective to give the security, deduct its full value and bypass capital gains tax on the amount of the increase in value at the time of your gift.

You may then use the cash you would otherwise have given to repurchase the security at its current price. You will have the same amount invested in the security as before, but with a new, higher cost basis.

If the security continues to grow in value, when you do sell it, you will only owe tax on the increase in value from the time you repurchased it. If the value declines in the future, you may claim the loss on a sale as a deduction or use it to offset capital gains. This could reduce your income tax liability in the year the stock is sold.

Giving other assets

Other property that has increased in value—such as art, jewelry, antiques or real estate—may also make practical gifts. The new tax law does not change the advantages of giving in this way.

Whether or not a gift of such assets is tax deductible (and the amount of the deduction you may claim) depends on the type of property, its value and the way it will be used by the charity, as was the case in the past. Check with your advisors for more information.

Gifts from retirement funds

Special tax and other benefits from giving from retirement account assets remain substantially unchanged under the new tax code.

For example, if you are required to withdraw funds annually from your Individual Retirement Account (IRA) or other retirement plan, you may find that making gifts using all or a portion of the withdrawn funds can be a good way to minimize, or even eliminate, taxes on the amount withdrawn, while also removing the donated amount from your estate for federal and/or state tax purposes.

In the case of a traditional or Roth IRA, people age 70½ and older may make tax-free gifts totaling up to $100,000 per year directly to a qualified charitable recipient.

The amount you give will count towards your annual Required Minimum Distribution but will not be considered income to you.

This direct transfer to charity from an IRA is called a “Qualified Charitable Distribution.” This option can be especially attractive if you do not itemize your tax deductions or you would like to keep your reportable income down to avoid having your Social Security and other income taxed at a higher rate. Note this opportunity is not available with 401(k)s or other tax-favored retirement plans.

Check with your tax advisor and IRA administrator for more information about making gifts of retirement plan assets and the forms necessary to give in this way.

Life insurance gifts

Life insurance policies you no longer need for their original purpose may also be a good option for making charitable gifts. For example, if loved ones no longer need the protection provided by a particular policy or a policy is not necessary to fund estate taxes you no longer expect to owe, consider using that policy to make a charitable gift.

The advantages of giving life insurance policies depend on the policy’s value, form of ownership and other factors. Contact your financial advisor or insurance company for information and to obtain the necessary forms.

Give and receive income

Did you know that you can make a gift today and also receive income from the gift for yourself and/or another person? The income can be received for life, or in some cases it may continue for another period of time you choose.

Through the use of flexible tools, you can make special gifts while providing for retirement, supporting parents or other loved ones or arranging funding for educational expenses or other special needs.

These plans can feature immediate income and/or capital gains tax savings. Giving in this way can be especially attractive to those who do not ordinarily itemize their tax deductions. That is because deductions related to these gifts may help boost your total deductions above the standard deduction amount, allowing you to benefit not only from the charitable gift but from other deductions as well.

In addition, a large percentage of payments may be received free of tax, or taxed at rates lower than other sources of income.

Such gifts can also offer a way to increase income from what were low-yielding assets without incurring capital gains tax at the time of the gift.

Because the assets used to fund such gifts will ultimately be used for charitable purposes, they are generally not subject to gift or estate taxes, and you may also benefit from substantial savings in addition to the income and capital gains tax benefits described previously.

Check with your advisors to learn more about making gifts that provide additional income, tax savings and other financial benefits.

Making gifts over time

You may even make a charitable gift for a period of time before the assets funding the gift are returned to you and/or your heirs.

A charitable lead trust is one such gift that can allow you to make charitable contributions over a specific time period you choose. When the assets pass to other heirs after the charitable gifts are completed, the value of the gifts from the trust will serve to reduce or eliminate federal and/or state income, gift and estate taxes that might otherwise be due. In this case, the payments that are distributed to charitable organizations will not be included in your income, effectively providing the same benefits as if you had received the income and fully deducted it for tax purposes.

Making future gifts

You may also wish to consider making charitable gifts that will be received in the future as part of your financial and estate plans.

There is also good news regarding future gifts in the new tax law: Even fewer estates will be subject to estate tax. The amount that can be left to heirs free of federal estate and gift taxes has been increased to approximately $11.2 million for single individuals and $22.4 million for married couples. This amount will be adjusted for inflation in future years.

Even for estates still subject to tax, all charitable gifts from the estate remain fully deductible.

As a result of reduced estate taxes, it will no longer be necessary for most to set aside funds for payment of taxes on gifts to individuals.

This means it may now be more practical to use all or a portion of your tax savings to fund charitable gifts as part of your estate plans, because your heirs will still receive the same amount or more than they would have after paying taxes under prior law.

Options for making charitable gifts as part of your estate and financial planning include the following:

Giving through your will is a convenient way to make a gift in the future. You may decide to make a gift of a specific amount, a percentage of your estate or all or part of what remains after you have remembered family and friends.

These gifts can often be arranged with the addition of a simple codicil (amendment) to your existing will.

Giving through living trusts is another possibility. Many people's estates will be distributed primarily through a trust they created during their lifetime (often referred to as a "living trust").

When an estate will largely be distributed through a living trust, it is often best to include charitable gifts in the trust instead of, or in addition to, a will. Charitable gifts may be included in living trusts when they are created, or can be added later with an amendment to the trust.

Living trusts can not only provide for future distribution of assets, they may include arrangements for management of your affairs (including making your charitable gifts) if you are unable to do so yourself. They can also help reduce the cost and delays of estate settlement.

Giving the proceeds of a life insurance policy no longer needed for its original purpose can also be a practical way to make a future gift. You may name one or more charitable interests to receive all or a portion of a life insurance policy's value at death. In some cases, income tax and estate tax benefits can result from giving in this way.

Gifts of retirement plan remainders are increasingly popular as more people have accumulated a significant portion of their assets in tax-favored retirement plans, and because individuals who inherit these plans must usually pay income tax when they withdraw the funds.

It may therefore be wise to make gifts from retirement plans to tax-exempt charities and leave other assets not subject to income tax to heirs. Naming a charity as the beneficiary of a retirement plan balance may also be beneficial from an estate tax planning perspective.

Giving bank or investment account remainders is another option. In most states you may name a charity to receive all or a portion of what is left in an investment account. These are known as "pay on death" (POD) or "transfer on death" (TOD) arrangements. Under the terms of these provisions, future charitable recipients will not be able to access the accounts during your lifetime.

You may find that one or more of these ways to give will help you meet long-term charitable goals while first providing for your own needs and those of your loved ones.

Coordinating your plans

More information about the ways to give discussed in these pages is available upon request.

As a starting point when considering your financial and philanthropic plans, consider sharing this booklet with your advisors. They can provide advice appropriate for your circumstances and under the laws in effect at the time of your gift.

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