CHARITABLE GIFT-PLANNING: STRATEGIES & ADVANTAGES

Basic Techniques

1. **Gifts made during your lifetime benefit TRAIL today and yield income tax deductions**
   a. Cash Donations
      i. Deduction limited to 60% Adjusted Gross Income
      ii. 5-year carry forward for unused deduction
   b. Gifts of Appreciated Securities
      i. Deduction limited to 30% Adjusted Gross Income
      ii. 5-year carry forward for unused deduction

2. **Gifts made through your estate plans help meet your philanthropic goals**
   A donor may leave gifts to charity through their will, trust, retirement accounts, annuities and life insurance. These testamentary gifts may offer planning opportunities to maximize tax efficiency through matching assets with deferred income to charity.

3. **Qualified Charitable Distributions from your IRA make giving easy**
   An Individual Retirement Account (IRA) Required Minimum Distribution (RMD) sent directly to a qualified charity like TRAIL will allow an IRA owner age 70½ or older to exclude the distribution from their federal taxable income. This exclusion is not reduced by Adjusted Gross Income limitations.

4. **Creating a Donor Advised Gift Fund offers significant tax benefits**
   Contributions of cash or marketable securities to a DAGF are recognized for IRS purposes in the year of donation, even though the actual selection of the charitable organization(s) may not occur until a later date. The donor may contribute appreciated securities so that capital gain taxes can be avoided. After donation, fund earnings are not taxable to the donor. Assets contributed during donor's lifetime are not part of donor's estate and are not subject to estate taxes. At account opening, the donor may elect a successor individual(s) to recommend distribution of remaining funds, or the donor may specify the charities that should receive the undistributed balance at their death.

5. **Endowed Gifts through Iowa Community Foundations help secure TRAIL's future**
   If available, the Endow Iowa Tax Credit provides a 25% Iowa income tax credit along with income tax deductions. The Johnson County Community Foundation can provide details.

Advanced Techniques (see your attorney for more information)

1. **Charitable Remainder Trust (CRT)**
   CRTs distribute a fixed amount (Charitable Remainder Annuity Trust—CRAT) or fixed percentage (Charitable Remainder Unitrust—CRUT) of their assets to a designated beneficiary (may include the donor) for a term of years or over the lifetime of the beneficiaries. Once the term of the trust ends, the remaining assets in the trust are distributed to the charities named by the donor. The donor is allowed to take a partial

charitable income tax deduction at the time that the trust is funded if it is funded during the donor's lifetime. If funded at death, the present value of the charitable remainder interest can be deducted from the donor's estate via the estate tax charitable deduction. A CRT is exempt from paying tax on investment income, so if it is funded during life, consider donating appreciated assets to the trust in order to avoid paying capital gains tax when those assets are sold. **CRTs work well in high interest rate environments.**

Example CRAT:

Initial Gift to CRAT: $400,000 Annuity: $20,000/year
Charitable Deduction: $166,830* Term: 20 years

Total Payout to Beneficiary: $400,000
Remainder to Charity: $547,142**

Example CRUT:

Initial Gift to CRUT: $400,000 Unitrust: 5% of market value per year
Charitable Deduction: $144,090* Term: 20 year

Total Payout to Beneficiaries Over 20 Years: $445,000**
Remainder to Charity: $448,000**

*Estimated using Applicable Federal Interest Rate: 5.8% - December 2023
** Assumes 6% annual growth net of fees over term. This calculation is provided for illustration purposes only and not a promise/guarantee of return.

2. **Charitable Lead Trust (CLT)**
This trust is a mirror image of a CRT. A CLT makes regular payments (Charitable Lead Annuity Trust—CLAT or Charitable Lead Unitrust—CLUT) measured by a life or term of years to designated charities. At the end of the term, the CLT distributes any remaining funds to its remainder beneficiaries. For gift tax purposes, the size of the gift to remainder beneficiaries is the trust's projected value at its termination (this calculation is based upon a rate set by the IRS at the time of initial transfer to the trust). If the actual amount left to beneficiaries is higher than the projected amount, then that difference goes to the beneficiaries tax free. It is possible to "zero out" a charitable lead trust so that the projected remainder is zero, thus no gift would occur at transfer. In a "zeroed out" CLT, any extra growth in trust assets over the IRS calculated rate would result in a remainder payment to beneficiaries without any gift or estate tax consequences. **CLTs work well in low interest rate environments.**

Example "Zeroed Out" CLAT

Initial Gift to CLAT: $1,000,000 Annuity: $85,800/year
Charitable Deduction: $1,000,000* Term: 20 years

Total Payout to Charity: $1,716,000
Remainder to Beneficiary (free of gift tax): $50,932**

*Estimated using Applicable Federal Interest Rate: 5.8% - December 2023
** Assumes 6% annual growth over term and standard fee schedule. This calculation is provided for illustration purposes only and not a promise/guarantee of return.

Disclosure: Neither TRAIL of Johnson County nor any of its employees are authorized to give legal or tax advice. Individuals are encouraged to seek the guidance of legal or tax counsel.