Charitable Planning and Giving

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“One Big Beautiful Bill” – Legislative & Tax Update

Navigating the Tax Landscape After OBBBA

- The Tax Cuts & Jobs Act ("TCJA"), enacted in late 2017, dramatically reshaped the tax code for individuals and corporate entities. Its most notable provisions included:
  - Lower individual income tax rates
  - An increased standard deduction
  - The elimination of personal exemptions,
  - Effectively doubled the amount of lifetime federal gift and estate tax exemption
- These changes were, by design, temporary and scheduled to sunset at the end of 2025. Without new legislation, many taxpayers would have faced a return to pre-TCJA tax rates and a smaller standard deduction, potentially leading to a substantial tax increase for millions

Key Changes – Income and Individual Tax

- OBBBA "permanently" extended the individual tax brackets established by the TCJA

Tax Rate	For Single Filers	For Married Individuals Filing Joint Returns	For Heads of Households
10%	$0 to $12,400	$0 to $24,800	$0 to $17,700
12%	$12,401 to $50,400	$24,801 to $100,800	$17,701 to $67,450
22%	$50,401 to $105,700	$100,801 to $211,400	$67,451 to $105,700
24%	$105,701 to $201,775	$211,401 to $403,550	$105,701 to $201,775
32%	$201,776 to $256,225	$403,551 to $512,450	$201,776 to $256,200
35%	$256,226 to $640,600	$512,451 to $768,700	$256,201 to $640,600
37%	$640,601 or more	$768,701 or more	$640,601 or more

Key Changes – Income and Individual Tax

- The OBBBA "permanently" increased standard deduction amounts, adjusted for inflation
- 2025:
  - $15,700 for single filers
  - $31,500 for married couples filing jointly
  - $23,625 for heads of household.
- 2026:
  - $16,100 for single filers
  - $32,200 for married couples filing jointly
  - $24,150 for heads of household

Key Changes – Charitable Giving

- **Standard deduction:** Starting in 2026, joint filers can claim a separate deduction of up to $2,000 ($1,000 for all other filers) for cash gifts, provided they are not made to a private foundation or donor advised fund.

- **Itemized deductions:** Starting in 2026, high earners in the top 37% tax bracket who itemize will see the value of their deductions capped at a 35% tax benefit. The OBBBA has also introduced a floor for charitable contributions. Beginning in 2026, only contributions exceeding 0.5% of adjusted gross income will be deductible.

- Cash gifts to public charities will continue to be <u>deductible up to 60% of AGI</u> instead of falling to 50% as previously scheduled.

- Beginning in 2027, a new tax credit of up to $1,700 is available for charitable gifts of cash to scholarship-granting organizations that meet specific standards. Any amount claimed as a credit cannot also be claimed as a charitable contribution.

Key Changes – Estate and Gift Exemption

- The federal gift and estate tax exemption is $15 million for individuals (and $30 million for married couples) beginning in 2026 (and indexed)
- Annual gift tax exclusion for both 2025 and 2026 is $19,000 per recipient per year
- OBBBA gives more certainty (albeit temporary) which helps planning
- Because of that higher exemption, the "must-act-now" urgency for certain estate-tax moves is somewhat reduced. Some planners moving to income tax based strategies.

What Does This Mean for Charitable Gifting?

- There's still plenty of opportunity for people to utilize charitable gifting strategies and to reap the benefits from available tax savings.
- Charitable planning should be a part of estate planning and business succession planning conversations.

Understanding Cost Basis, Gains, & Investment Forecasts

What Do Donors Give?

- Cash
- Retirement Assets
- Appreciated assets i.e. securities or real property, business interest
- Services/Time
- Other assets such as collectibles
- Life Insurance
- Interests in Charitable Lead Trusts and Charitable Remainder Trusts

Why Donate Appreciated Assets?

- Cash isn’t always the most tax-efficient gift.
- Appreciated investments can allow you to give more to charity while creating greater tax savings.
- Ideal strategy for long-term investments with concentrated positions. Why?

What is Cost Basis?

- Cost Basis = Original purchase price (plus certain adjustments)

- Capital Gain = Current Market Value – Cost Basis
  - Selling appreciated assets triggers capital gains tax. The lower the cost basis relative to today's value, the larger the potential taxable gain if sold.
  - Highest rate for long-term capital gains is 20% (surtax of 3.8% for some)

- If you are charitably inclined, avoid capital gains tax on that appreciation by donating the stock itself. The charity receives the full market value of that gift, as opposed to selling that asset and then donating the funds (less money ultimately remains available for charitable giving).

Value of $100 invested for 40 Years (1985-2024)

Portfolio	Annual % Return	Maximum Drawdown	Ending Value
100% Bonds	6.3%	22%	$947
75% Bonds / 25% Stocks	7.6%	18%	$1,877
50% Bonds / 50% Stocks	9.2%	18%	$3,392
75% Stocks / 25% Bonds	10.6%	23%	$5,583
100% Stocks	11.7%	43%	$8,312

Investment Forecasts & Charitable Impact

- Assumptions:
  - $100,000 in US stocks gifted today
  - 5.2% return over 50 years
  - 4% withdrawn annually to benefit The Patch

- In 2077:
  - Original $100,000 gift = $164,000
  - Total of $264,000 in distributions to fund The Patch's mission over time

US Stock Market

	LEVEL	3M CHANGE	1Y CHANGE
Real Expected Return (PCAEY*)	2.94%	-0.36%	-0.32%
Risk Premium (PCAEY – 10 Yr TIPS Real Yield)	0.72%	-0.57%	-0.62%
Nominal Expected Return (PCAEY + Expected Inflation)	5.18%	-0.43%	-0.38%

Ways to Give: Smart Planning for High-Impact Philanthropy

Income Tax Benefits of Gifting

- Generally, donors may deduct charitable contributions made to qualified charitable organizations so long as they itemize their deductions.
- This deduction is dependent upon who the donation is going to, the type of asset that is being donated, and the AGI of the donor (recall under OBBBA only contributions exceeding 0.5% of adjusted gross income will be deductible for itemizers).
- An individual's deduction for charitable contributions can't be more than 60% of AGI, but 20%, 30%, and 50% limits can apply (recall under OBBBA deductions for high earners in the top 37% tax bracket who itemize will be capped at 35%).
- Excess contributions that are unable to be deducted in the current tax year because they exceed AGI limits can be carried for next 5 years until used (floor still applies for future years)

Estate Tax Benefits of Gifting

- Current Exemption:
  - For 2026, the current federal estate tax exemption is $15 million per individual or $30 million per married couple
  - Individuals can transfer up to this amount of assets to their heirs, either during life or at death, without paying federal gift or estate tax
  - Assets exceeding the exemption amount are subject to a 40% tax
- Unlimited estate tax deduction from decedent's gross estate for bequests and transfers to qualifying organizations.
- In other words, assets that are gifted to charity during life or by will are excluded from a decedent's taxable estate.

Bunching Strategy

- Taxpayers have two basic choices: standard ($16,100 for single or $32,200 for married filing joint) or itemized deductions.
- Doubling your charitable giving in tax year one, and not making any charitable donations in tax year two.
- If in a two-year period, charitable donations exceed the standard deduction, consider bunching.

Bunching Strategy Example

Example: Donor has income of $750K, is in the 35% income federal tax bracket, files jointly as a married couple, and itemized deductions.

	2026	2027	2028		2026
Other deductions	$25K	$25K	$25K		$25K
Charitable donation	$20K	$20K	$20K		$60K
Less 0.5% floor	($3.75K)	($3.75K)	($3.75k)		($3.75K)
Amount over standard deduction of $32,200	$9,050	$9,050	$9,050	vs.	$49,050
Potential tax savings	$3,167.50	$3,167.50	$3,167.50		
	$9,502.50 TOTAL				$17,167.50

$7,665 DIFFERENCE IN TAX SAVINGS

https://www.fidelitycharitable.org/content/dam/fc-public/docs/resources/2026-bunching-strategy-example.pdf

SECURE Act

- The Setting Every Community Up for Retirement Enhancement Act eliminated the “stretch” retirement account for most heirs effective January 1, 2020.
- Prior to the SECURE Act, heirs could stretch RMDs out of their life expectancy, thus minimizing taxes and allow the assets to grow tax-free.
- Now, most beneficiaries must withdraw the retirement assets within 10 years.

Qualified Charitable Deductions

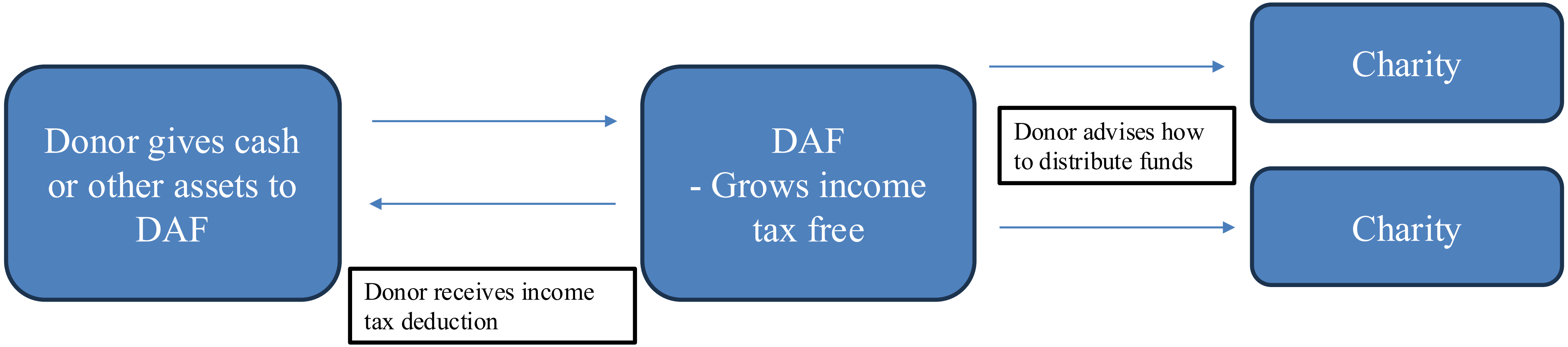
- Under Secure 2.0, RMD age was raised to 73 (with further age increases built in) but left the age of eligibility for making QCDs at 70 ½.
- Taxpayers who take an RMD and/or the standard deduction can reduce their taxable income that they would have otherwise taken from the IRA.
- Capped at $111,000 in QCDs in 2026.
- QCDs cannot be made to a Donor Advised Fund.

IRA Beneficiary Designations

- Charities can be listed as beneficiaries of IRAs. If a beneficiary of an IRA, then the charity must withdraw all funds within 5 years.

Donor Advised Funds

- DAFs are a cost-effective vehicle that allows a donor to make charitable gifts to multiple charities over time.



What Makes DAFs So Attractive?

- Tax Advantages:
  - Income tax deduction for donations.
  - Like all 501(c)(3) organizations, income is earned tax free.
- Flexibility:
  - DAFs do not have distribution requirements like PFFs (no minimum % each year)
  - Can benefit more than one charity.
- Easy Setup:
  - Unlike CLTs and CRTs, DAFs are simple to set up and administer.
- Accessible for a larger group of donors:
  - Setup costs are minimal.
  - Smaller amount is required upfront to establish a DAF than a split interest trust.
- Continued engagement
  - Donors can name an advisory committee to direct which charities receive donations/grants.

Charitable Gifts of Personal Residences

- Donors can give a remainder interest in their personal residence while maintaining lifetime enjoyment.
- Donors will get a significant income tax savings upon completing the gift for property that goes to a charity later.
- Donors subject to the federal estate tax will also get an estate tax savings.

Charitable Gifts of Personal Residences: Important Notes

- Must qualify as a personal residence
  - Any property used by a donor as a personal residence.
  - A vacation home qualifies.
- Term of Life Enjoyment
  - Consider your state's Rule Against Perpetuities
  - Rev. Rul. 77-305
- Appraisal
  - Must be done by a "qualified appraiser."

Endow Kentucky Tax Credit

- State incentive program providing individuals and businesses a dollar-for-dollar credit against state income taxes (works alongside standard charitable deductions as well)
- Credit is 20% of an individual's gift, up to $10,000 per taxpayer.
- Gift must be made to a permanent endowment fund of a qualified community foundation or county-specific component fund or affiliate foundation.
- Must apply for the credit before making gift (first come, first serve basis).

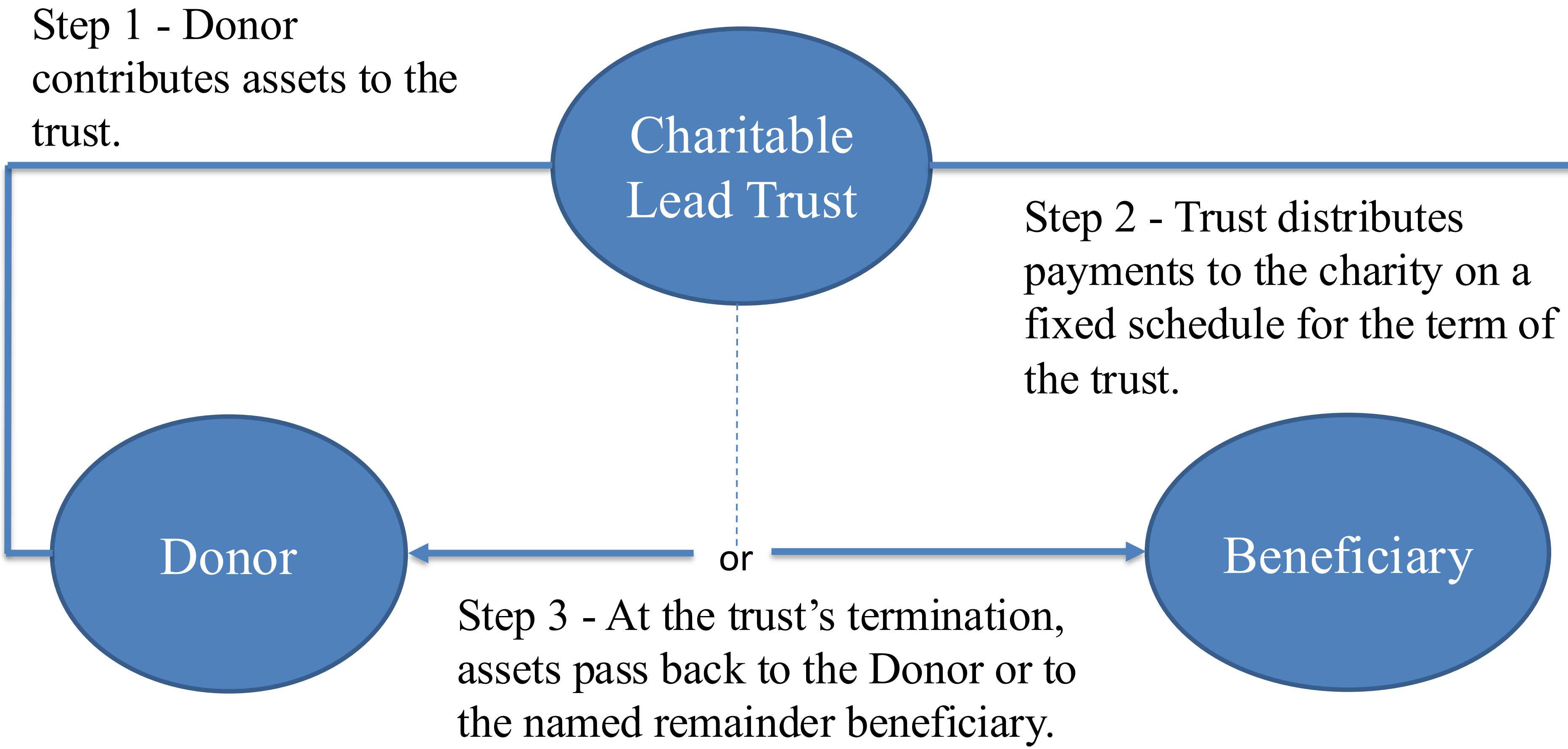
Specific Bequests

- Charitable giving can be a useful tool to achieve a decedent's charitable intent.
- Can provide for charitable bequests in will or trust – can be limited to specific uses.
- Unlimited estate tax deduction from decedent's gross estate for charitable bequests.

Split Interest Trusts

Charitable Lead Trusts and Charitable Remainder Trusts

Charitable Lead Trust



**Can receive an income tax deduction on present value of the charitable interest if structured as a grantor trust.*

Charitable Lead Trust: Case Study

- Jane Doe makes the following transfer to her CLT:
  - Gift Amount: $10,000,000
  - Date of Gift: 07/31/26
  - Payment Frequency: Annual
  - % of Initial Trust: 5% annuity
  - Trust Term: 10 years
  - Remainder Beneficiary: John Doe (son)
  - Named Charity: Doing Good Foundation

A	Annuity Trust Payout: AFR of the Month: 5.2%	$500,000
B	Factor: IRS Pub. 1457, Table B	7.6473
C	Adjustment for Time of Payment IRS Pub. 1457, Table K	1.0 (Annual)
D	Adjusted Factor Line (B) x Line (C)	7.6473
E	Present Value of Annuity: Line (D) x Line(A)	$3,823,650
F	Amount Transferred to Trust:	$10,000,000
G	Present Value Remainder: (Line (F) – Line (E)) (Taxable Transfer)	$6,176,350

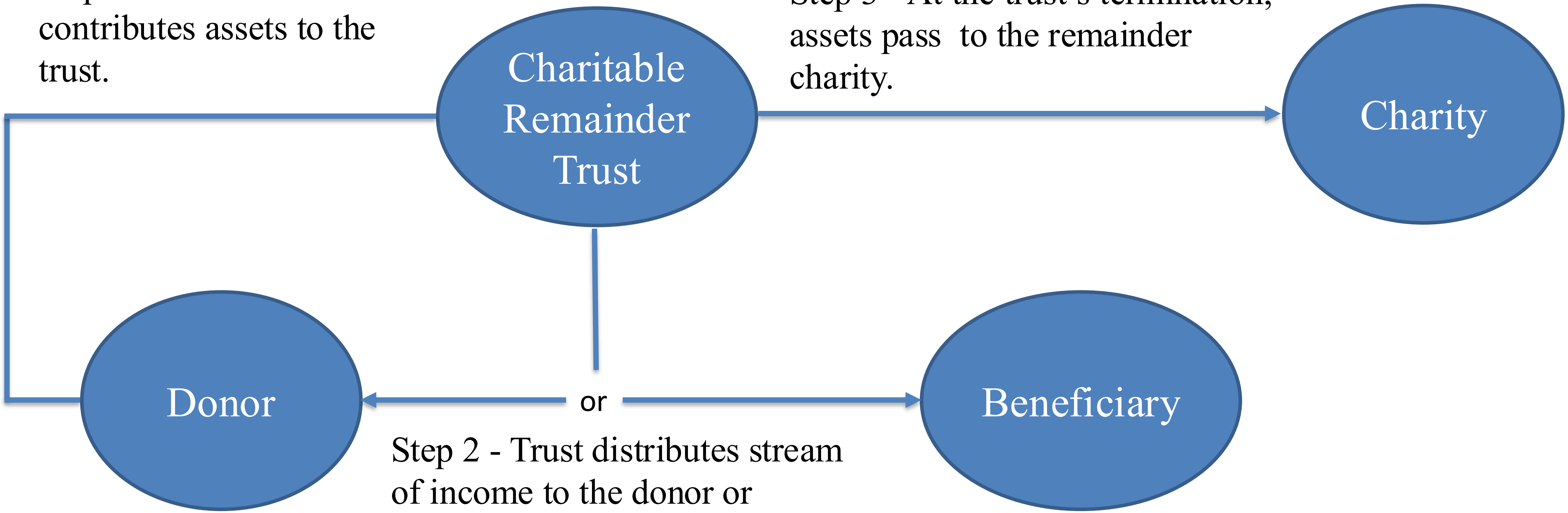
Charitable Remainder Trust

- Irrevocable trust that provides an income stream for the Grantor or other beneficiaries with a named charity receiving the remaining assets at the end of the trust's term.
- The term of the trust can be for no more than 20 years, or for the life of one or more non-charitable beneficiaries.
- The CRT must pass the 10% remainder test to qualify.

Charitable Remainder Trust

Step 1 - Donor contributes assets to the trust.

Step 3 - At the trust's termination, assets pass to the remainder charity.



Step 2 - Trust distributes stream of income to the donor or beneficiary a fixed schedule for the term of the trust.

Charitable Remainder Trust – Case Study

- Donor gifts $5,000,000 to a CRUT on July 31, 2026.
- Donor is 65 years old and names herself as the income beneficiary for the remainder of her lifetime.
- Unitrust payment is 5% annually.

A	Unitrust Percentage:	5%
B	Factor: IRS Pub. 1458, Table F AFR of the Month: 5.2%	.950570
C	Factor for Adjusted Payout Rate	4.75285
D	Nearest table rate below (C)	4.6%
E	Factor at Line (D) rate IRS Pub 1458, Table (U1)	0.44384
F	Nearest table rate above (C)	4.8%
G	Factor at Line (F) rate IRS Pub 1458, Table (U1)	0.42981

H	Line (E) Minus Line (G)	0.01403
I	Line (C) Minus Line (D)	0.153%
J	Line (I) Divided by 0.2%	0.765
K	Line (H) Times Line (J)	0.01073
L	Line (E) Minus Line (K)	0.43311
M	Present Value Remainder: Charitable Deduction (Line (L) x Gift Amount) (Taxable Transfer)	**$2,165,550**

What Now?

- Talk to your advisors about your charitable intent and the most tax efficient way to achieve that intent.

Questions?