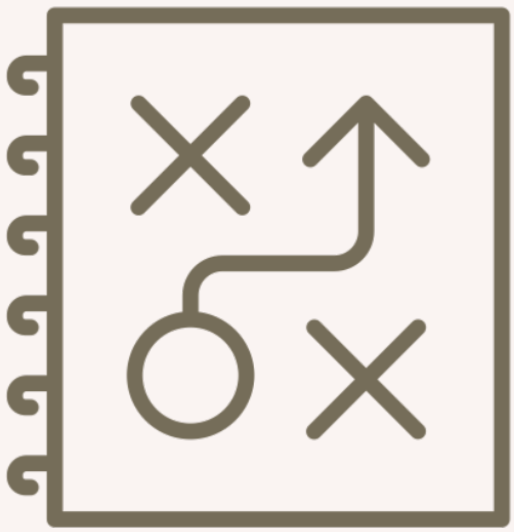

Charitable Giving Playbook

We help growth-oriented people maximize wealth and fulfill their purpose.

DoWealthDifferent.com • 479-282-1886 • hello@echocollaborative.com

Welcome!

You have found yourself amongst a community of like-minded individuals who want to make a positive impact. In a world full of hate, violence, and unrest, it's great to know there are people like you doing good.

I don't have to tell you that your generosity greatly impacts the causes you've chosen - you already know that nonprofits rely on your donations to further their mission. Furthermore, you're probably aware of the scientific research highlighting the benefits of generosity on both your physical and mental health – reducing stress, enhancing one's sense of purpose, creating relational connection, and increasing one's lifespan.

But what if you could **maximize your generosity** without reducing your overall cash flow? What if you could make an even greater impact with your existing resources? Wouldn't you want to know how to do that?

The purpose of this playbook is *not* to inspire you to be more generous. Instead, the purpose of this playbook is to educate you on **how to maximize your generosity**.

Just like a sports team utilizes a playbook as a collection of *all possible* plays and strategies compiled into one book, this playbook includes many possible strategies available to you. Use it as a reference guide and refer to it often. Let us help you **maximize your wealth and fulfill your purpose**.

All our best,
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Index

Basic Strategies

Cash Gifts

Might work best for:	Individuals in the accumulation and distribution phases that itemize deductions
General Tax Benefit:	Itemized tax filers receive a current income tax deduction for the value of cash contributed less any tangible benefit received resulting in a reduced taxable income; Non-itemized tax filers can deduct cash contributions up to $600 (married filing jointly)
Overview:	The most common charitable giving strategy is a direct gift to charities made while living and does not require a third-party. Cash donations can be made to any qualified organization (public charities, private operating foundations, or private nonoperating foundations).

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Scenario 1: Karen does not give to charity. She has an $8,000 state and local tax (SALT) deduction, and a $4,000 mortgage interest deduction. It is smarter for her NOT to itemize because the standard deduction of $12,950 is more than her total itemized deductions, which results in a taxable income of $187,050 and $40,088 federal tax due.

Scenario 2: Karen loves to support the causes she cares about and donates $10,000 to charity annually. She has an $8,000 state and local tax (SALT) deduction, and a $4,000 mortgage interest deduction. It is smarter for her to itemize because the standard deduction of $12,950 is less than her total itemized deductions of $22,000, which results in a taxable income of $178,000 and $37,192 federal tax due – a tax **savings of $2,896.**

	Scenario 1	**Scenario 2**
Adjusted Gross Income	200,000	200,000
Standard Deduction (2022)	(12,950)	
Itemized Deductions		
Other Deductions	~~(12,000)~~	(12,000)
Charitable Deduction		(10,000)
Taxable Income	187,050	178,000
Federal Taxes Due	40,088	37,192
		$2,896 SAVINGS

This hypothetical example is based on a single person with no children and is for illustrative purposes only.

Beneficiary Designation

Might work best for:	Individuals who desire to be tax-efficient with charitable contributions after death
General Tax Benefit:	Generally, gifts made at death to qualified charities are deducted from the decedent's adjusted gross estate to arrive at the taxable estate. Taxable accounts that designate a charity as sole beneficiary will result in zero income tax liability and an increased donation amount to the charity.
Overview:	A nonprofit can be listed as a beneficiary in a will, but many financial assets are not governed by a will. Beneficiary designations are unique to each asset and are managed by the entity that holds each asset. A nonprofit can be a designated beneficiary on many account types including life insurance, retirement accounts, annuities, bank accounts, etc.

Life Insurance Beneficiary: Life insurance death benefit proceeds generally aren't subject to income taxes and estate taxes. Although there is not usually an income tax savings by designating the nonprofit as a beneficiary, the proceeds are received without delay of probate or other administrative processes. Additionally, the donor's financial impact can be multiplied when minimal life insurance premiums are paid out of cash while living in exchange for a large death benefit after the insured dies that is designated to the nonprofit.

Retirement Account / Annuity Beneficiary: The beneficiary of an IRA and/or annuity can be taxed significantly. By naming a nonprofit as the beneficiary of taxable accounts, assets may pass tax-free to the nonprofit. This will minimize income taxes and allow other assets to pass to family members at a reduced tax rate.

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David would like charity to benefit from his estate upon his death. His estate consists of his IRA, appreciated stock and real estate. David's CFP® recommended that he give the appreciated stock and real estate to his children (since they receive a step-up in basis) and gift the IRA to a charity instead. Naming his favorite charity as the beneficiary of his IRA will allow David to provide for his favorite charities, while also **limiting the income tax burden** to his children.

Deduction Bundling

Might work best for:	Individuals in the accumulation and distribution phases that do not typically itemize deductions
General Tax Benefit:	A current income tax deduction for the value of cash contributed less any tangible benefit received (for gifts in excess of the standard deduction limit)
Overview:	In 2017, the IRS doubled the standard income tax deduction, but new tax laws make it advantageous for donors to bundle charitable donations in one year and take the standard deduction in the following year to maximize tax deductions. For taxpayers that don't yet know which nonprofit they want to donate to, or don't want to donate a large lump sum amount to a specific nonprofit, they can utilize a donor advised fund (see Intermediate Strategies).

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Scenario 1: Kyle and Stefanie used to give $8,000 every year to charity. Under the new tax law, they are limited to a $10,000 state and local tax (SALT) deduction, and they have a $5,000 mortgage interest deduction. Under the new tax law, it is smarter for them NOT to itemize. With a standard deduction of $25,900, whether they give $8,000 to charity or not, their tax deduction will remain the same.

	Scenario 1 Give $8,000 annually to charity		**Scenario 2** Give $16,000 one year to charity and $0 the next year	
Tax Year	2022	2023	2022	2023
Charitable Deduction	8,000	8,000	16,000	-
Other Deductions	15,000	15,000	15,000	15,000
Total Deductions	23,000	23,000	31,000	15,000
Is standard or itemized deduction best?	Standard	Standard	Itemized	Standard
Deduction Amount	25,900	27,700	31,000	27,700
Total Two Year Deduction	53,600		58,700	
			10% INCREASE	

This hypothetical example is based on a married couple with no children and is for illustrative purposes only.

Scenario 2: Kyle and Stefanie decide to bundle their charitable gifts so that their itemized deductions are above the standard deduction. In 2022, they increase their giving to $16,000 and they can now itemize their deductions. Then in 2023, they can claim the $27,700 standard deduction. **Their total income tax deduction increased by 10% over the two year period.**

Qualified Charitable Distribution (QCD)

Might work best for:	Individuals that are 70 ½ years of age or older and in the distribution phase
General Tax Benefit:	Zero income tax due on QCD amount; additional tax relief because the QCD does not count against the standard deduction
Overview:	A Qualified Charitable Distribution (QCD) is when an individual, 70½ years of age or older, donates directly to charity from their taxable IRA funds. The QCDs are not counted as taxable income because the funds go directly to the qualified charity. A donor 72 or older can give all or a portion of their RMD as a QCD to satisfy the annual distribution requirement. Two added bonuses include a) increasing the total amount given to charity because the gift is made on a pre-tax (or gross amount) basis, and b) potentially reducing Medicare premiums and social security taxability because the QCD is not counted as taxable income.

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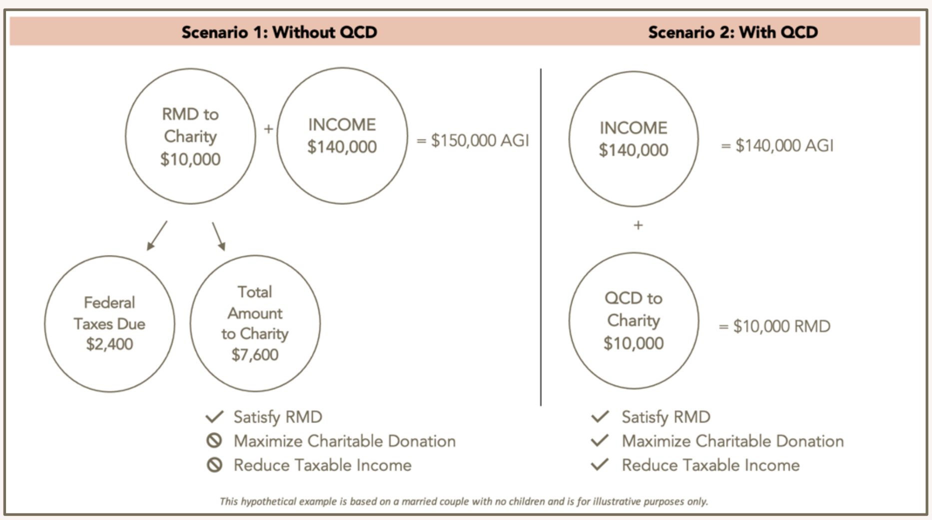
Scenario 1: Mark and Mary have an income of $140,000 and an RMD of $10,000. They desire to donate to charity every year and they do not need their RMD as income. If they donate to charity after paying tax, then their AGI is $150,000 and $7,600 goes to charity.



This hypothetical example is based on a married couple with no children and is for illustrative purposes only.

Scenario 2: Mark and Mary have an income of $140,000 and an RMD of $10,000. They desire to donate to charity every year and they do not need their RMD as income. Instead of taking the RMD as income, they can designate their RMD directly to charity (called a QCD). This results in a reduced AGI of $140,000 and an increased amount to charity of $10,000. This allows them to **satisfy their RMD, maximize their charitable giving, and reduce their overall taxable income.**

Intermediate Strategies

Donor Advised Fund

Might work best for: Individuals in the accumulation, distribution, and legacy phases

General Tax Benefit: An immediate income tax deduction in the year the assets are contributed (typically for gifts in excess of the standard deduction limit) without deciding what nonprofit will receive the benefits

Overview: A Donor Advised Fund (DAF) is a fund setup with a third party for charitable purposes that can facilitate large donations. All of the contributions are put into an account in the donor's name and are donated to charities of the donor's choosing over time. A variety of gifts - cash donations, investment securities, real estate, and even cryptocurrencies - can be donated to a DAF. The DAF can be a good option for the deduction bundling strategy or the beneficiary designation strategy, because it maximizes tax-efficiency and charitable giving.

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Jonas and Andrea are high-net-worth individuals who are seeking to reduce their taxable income. They desire to make a large donation to charity this year, but they do not yet know what charities they want to support. They donate appreciated stock valued at $150,000 and real estate valued at $300,000 to a donor advised fund. **This allows them to receive an income tax deduction of $450,000 this year and grant their donations over multiple years to multiple charities of their choice.**

	2021	2022	2023	2024	2025
	Appreciated Stock FMV $150,000	Children's Shelter $50,000	Children's Shelter $50,000	Children's Shelter $30,000	Animal Shelter $10,000
	Real Estate FMV $300,000	Food Bank $10,000	Local Church $20,000	Homeless Shelter $10,000	Local Church $20,000
Income Tax Deduction	$450,000	$0	$0	$0	$0
Total Grant to Charity	$0	$60,000	$70,000	$40,000	$30,000

This hypothetical example is based on a married couple with no children and is for illustrative purposes only. Cost basis is assumed to be $0. Adjusted Gross Income limits apply.

Gifts of Services

Might work best for:	Individuals in the accumulation and distribution phases that itemize deductions and donate their services to charity
General Tax Benefit:	Charitable contributions equal to the amount of out-of-pocket expenses directly connected to the services provided
Overview:	When donating services to a charitable organization, only the unreimbursed out-of-pocket expenses directly connected with the services are deductible. The value of the service itself is nondeductible.

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Maggie volunteers at a local hospital. She is required to wear a special green uniform. The service she provides is not deductible, but the cost of her uniform is deductible as a charitable contribution.

Group Term Life Insurance (while living)

Might work best for:	Individuals in the accumulation phase who do not have a need for employer paid group term life insurance.
General Tax Benefit:	No reportable income regardless of the amount of life insurance premiums that the employer has paid.
Overview:	Any group term life insurance coverage in excess of $50,000 paid for by an employer will create taxable income (based on the table life insurance rates under IRS Section 72). An employee can avoid recognizing this taxable income by naming a charitable beneficiary for any amount of employer-provided life insurance in excess of $50,000.

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Lucy is an employee in the 35% income tax bracket with an employer paid group term life insurance policy equal to 4 x her annual salary ($1,050,000). Her amount of taxable coverage is $1,000,000 which results in a reportable income of $430 monthly or $5,160 annually ($0.43 monthly cost per thousand dollars). If she designates a charitable beneficiary, then she will **reduce her taxable income by $5,160**.

Intangible Property (Appreciated Stocks & Bonds)

Might work best for:	Individuals in the accumulation and distribution phases
General Tax Benefit:	A current income tax deduction for the valuation of the donated property at the date of the contribution (see Appendix B)
Overview:	Donations of intangible property include assets such as stocks and bonds. Generally, when intangible assets have appreciated (or increased in value) and are sold, the investor must recognize capital gains on the sale of the asset, which can potentially result in a high tax liability for the investor. To maximize wealth, the investor can choose to donate the property directly to a charity through a brokerage account or donor advised fund.

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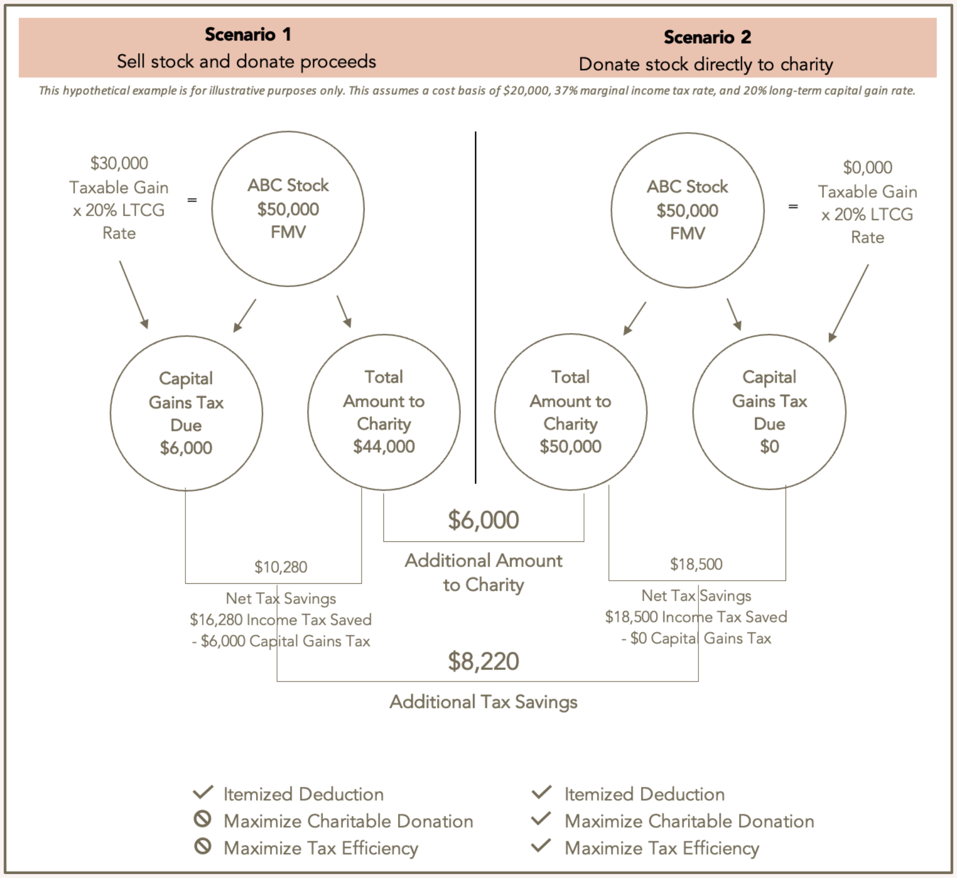
Scenario 1: Alex purchased ABC stock for \$20,000 five years ago, and it currently has a fair market value (FMV) of \$50,000. Alex sells the stock and donates the proceeds to charity. This transaction results in a charitable donation of \$44,000 and an income tax savings of \$10,280.



Scenario 2: Alex purchased ABC stock for \$20,000 five years ago, and it currently has a FMV of \$50,000. Alex donates the stock directly to charity. This transaction results in an income tax savings of \$18,500 and a charitable donation of \$50,000. That's **an additional \$6,000 to charity and an additional \$8,220 saved on taxes**.

Tangible Property

Might work best for:	Individuals in the accumulation and distribution phases
General Tax Benefit:	A current income tax deduction for the valuation of the donated property at the date of the contribution (see Appendix B).
Overview:	Donations of tangible property include inventory, capital assets, works of art, automobiles, coin collections, real property, etc. To get the largest income tax deduction, consider donating property related to the type of nonprofit being donated to (i.e. coin collection to a museum).

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Peter has a valuable coin collection he has been collecting for over 30 years. Peter has been a savvy investor, and the collection has an adjusted basis of $1,000 and a fair market value (FMV) of $25,000. If Peter contributes the coin collection to his church, it is hard to imagine a situation where the collection could be used for religious purposes; therefore, Peter will have a charitable deduction equal to $1,000 (adjusted basis) in the coin collection. If Peter contributes the coin collection to the local museum, whose intent is to display the collection, Peter will have a charitable deduction equal to $25,000 (FMV), **increasing his deduction by $24,000.**

Advanced Strategies

Bargain Sale of Property

Might work best for:	Individuals in the accumulation and distribution phases who have owned property for more than 12 months
General Tax Benefit:	A reduced tax liability for the "sale element" and a recognized charitable deduction for the "bargain element"
Overview:	When property is sold to a nonprofit at a price below its fair market value, it is referred to as a bargain sale. The transaction is split into two transactions - the "sale element" and the "bargain element" (or charitable contribution element). The donor will benefit from the bypass of gain and receive a charitable deduction on the contribution element but must recognize taxable gain on the sale element.

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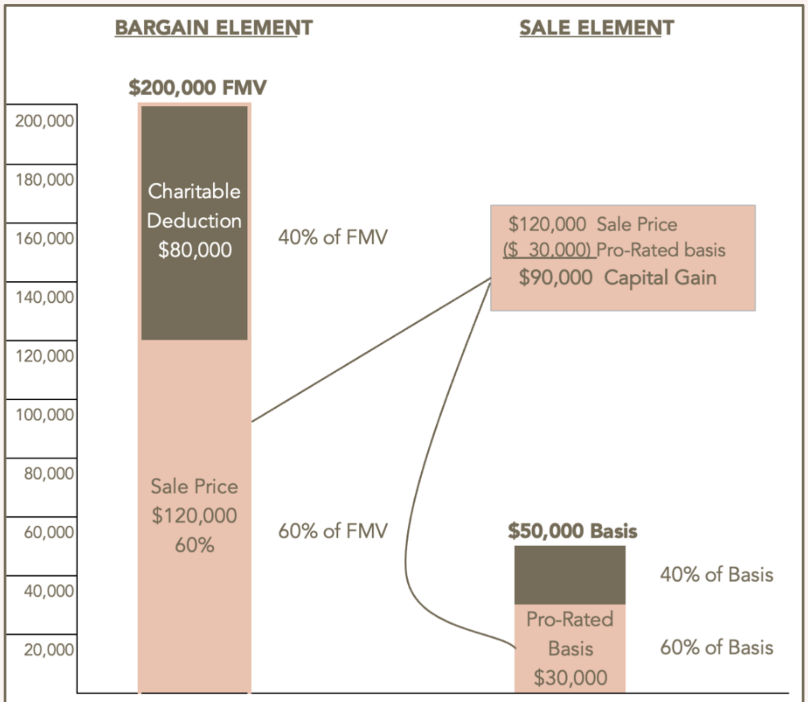
John purchased vacant land for $50,000 several years ago. The land is adjacent to the children's shelter who would like to acquire the property for future expansion. The property is currently valued at $200,000. The children's shelter is willing to pay $120,000 for the property.

The Bargain Element: John is willing to sell the $200,000 property for $120,000. This entitles John to **a charitable deduction of $80,000 for a gift of appreciated property**.

The Sale Element: John is willing to sell the property for $120,000 and he has a pro-rated basis of $30,000 so John will recognize **a reduced long-term capital gain of $90,000.**



This hypothetical example is for illustrative purposes only. This assumes a FMV of $200,000, a cost basis of $50,000, and a sale price of $120,000

Charitable Gift Annuity

Might work best for:	Individuals in the accumulation and distribution phases who want to balance their charitable goals with their income needs
General Tax Benefit:	An immediate deduction for the amount of the donation in excess of its present value (as calculated by the IRS), partially tax-free income for a period of time (based on statistical life expectancy), and reduced or eliminated capital gains tax liability for gifts of appreciated securities and personal property.
Overview:	A Charitable Gift Annuity is a lifelong contract between a donor and a charity, where the donor makes a sizeable donation to the charity and in return the donor receives regular payments for life (based on the value of the assets transferred to the charity). The annuity payments are backed by the charity's holdings, not just by the assets donated, and the payouts are not limited to the contributed assets. Once the donor is deceased, the charity retains the remaining assets. Charitable gift annuity rates vary from charity to charity and are based on several factors, including the amount of the gift, the donor's age(s) at the time of the gift, and state regulations.

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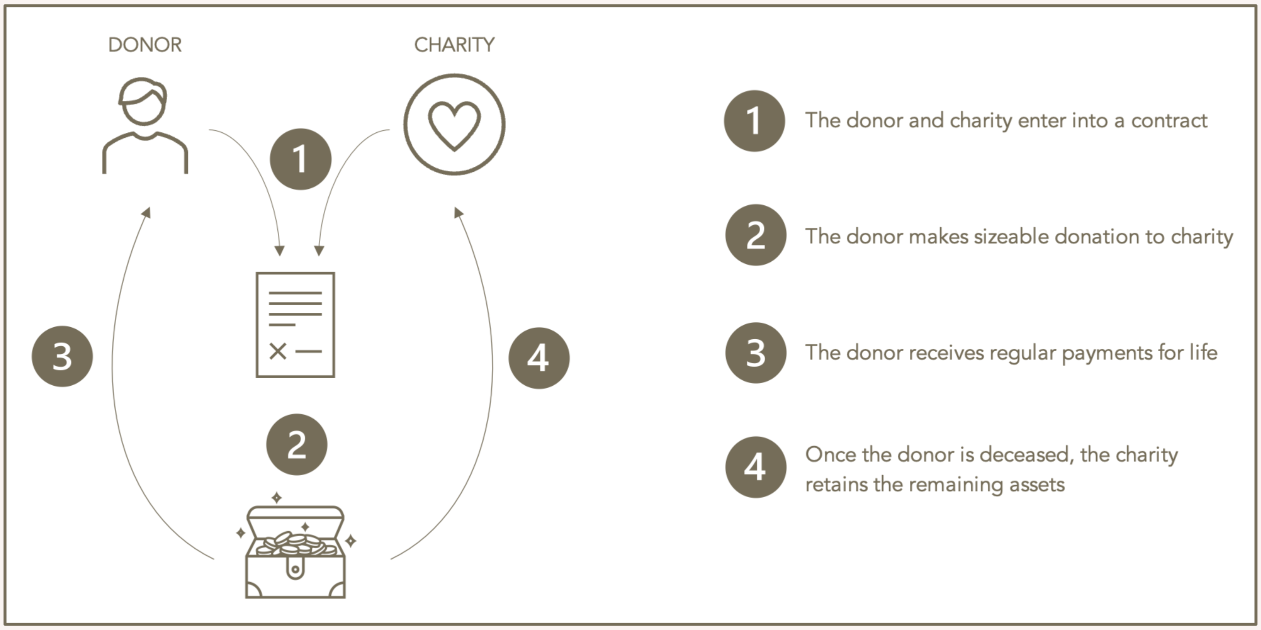

Charitable Lead Trusts (CLAT | CLUT)

Might work best for:	Individuals in the distribution phase who seek to reduce current income from assets while living and desire the assets to pass to a noncharitable beneficiary at death.
General Tax Benefit:	An income tax deduction equal to the full FMV of the property transferred, and a reduced gross estate.
Overview:	When a Charitable Lead Trust is created the grantor transfers assets to the trust, a charity receives the income stream during the term of the trust and the remaining value transfers to a noncharitable beneficiary. This strategy is often used by high-net-worth individuals who do not need the current income from a particular asset or set of assets. It is most advantageous to fund a charitable lead trust with highly appreciating assets because future appreciation is effectively removed from the estate.

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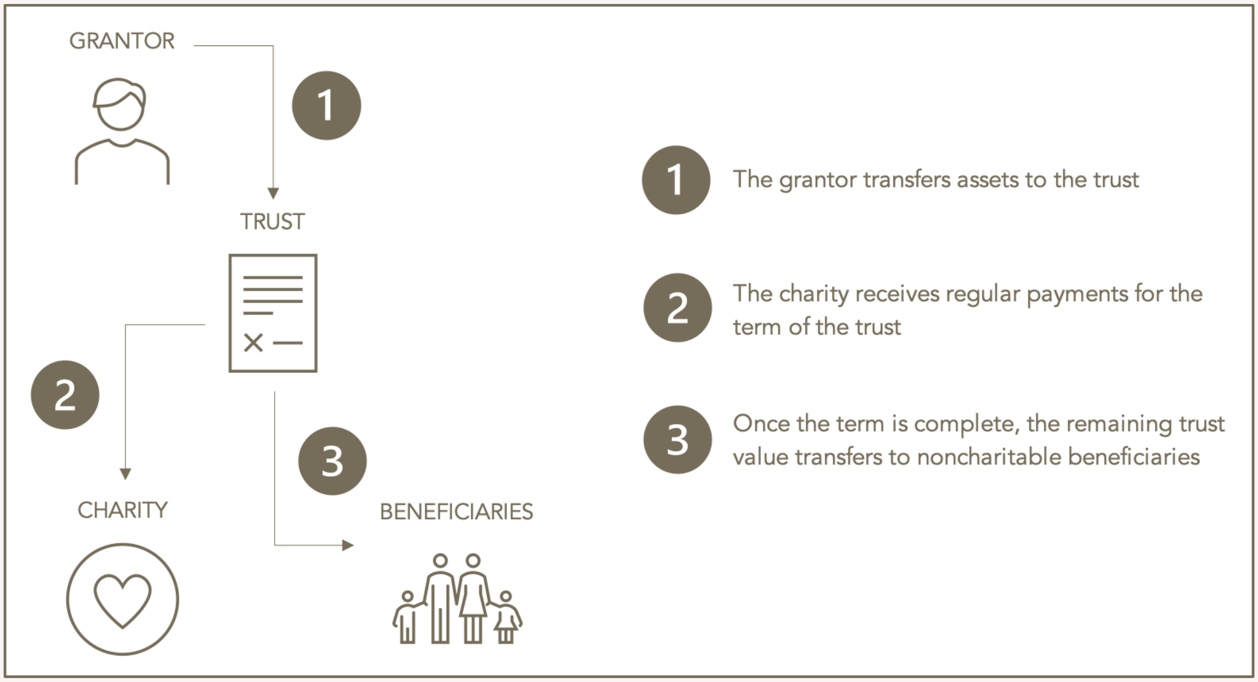

Charitable Remainder Trusts (CRAT | CRUT)

Might work best for:	Individuals in the distribution phase seeking to transfer assets to a nonprofit in a tax efficient manner and maximize the income payments to noncharitable beneficiaries.
General Tax Benefit:	An immediate income tax deduction for the present value of the remainder interest that will pass to the charity at the end of the term if the trust meets certain criteria.
Overview:	When a Charitable Remainder Trust (CRAT and CRUT) is created the grantor transfers assets to the trust, a noncharitable beneficiary receives an income stream during the term of the trust and the remaining value transfers to a qualified charity. Even though the trust is irrevocable, the donor reserves the right to change the charitable beneficiary at any point. If the trust assets are depleted, the payments to the beneficiary stop. Characteristics vary between a CRAT and a CRUT and can be found in Appendix C. *Pro Tip: If a donor desires to benefit both charity and his or her heirs, the income tax savings created by the charitable deduction, in real dollar terms, can be used to purchase life insurance which will serve as a wealth replacement asset for the asset which was transferred to charity.*

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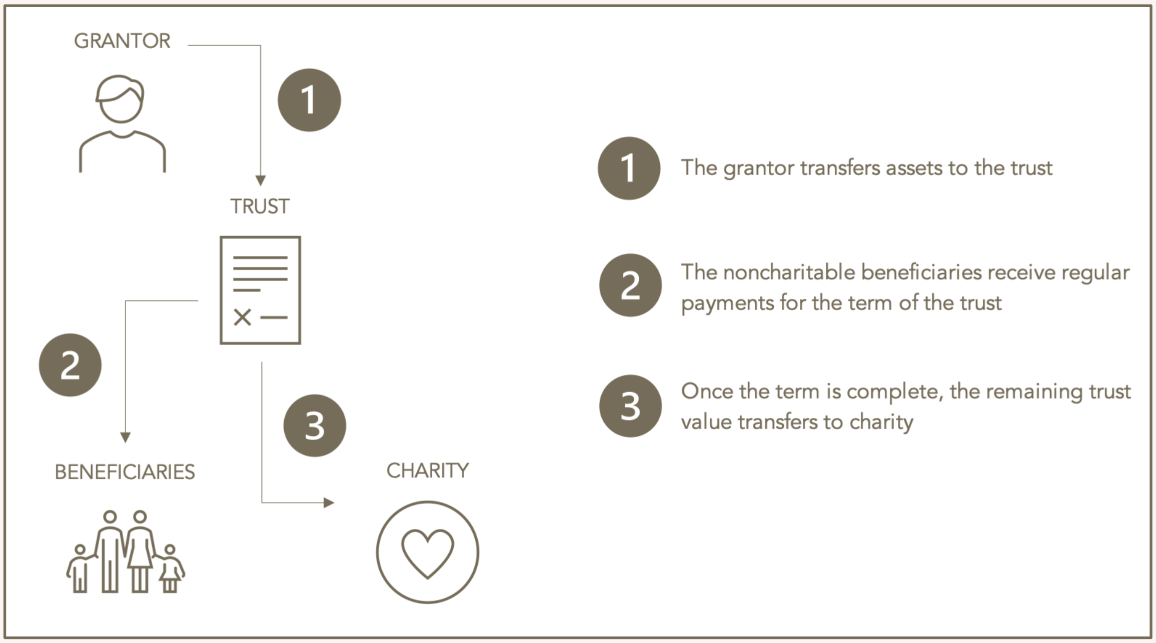

Charitable Stock Bailout

Might work best for:	The founder or key shareholder of a C corporation that is philanthropically inclined and would like to remove earnings from the company while still maintaining a controlling position of its stock
General Tax Benefit:	A current income tax deduction equal to the FMV or basis of the stock, zero capital gains recognized on the sale, and a reduced estate value.
Overview:	In a charitable bailout, a corporation's owner gifts stock in the corporation to a charity, and the corporation then redeems the stock using the corporation's retained cash. Both the gift of the stock and its redemption are income-tax-free. The donor can achieve charitable objectives, avoid capital gains tax, and distribute excess cash that has accumulated in the corporation tax-free.

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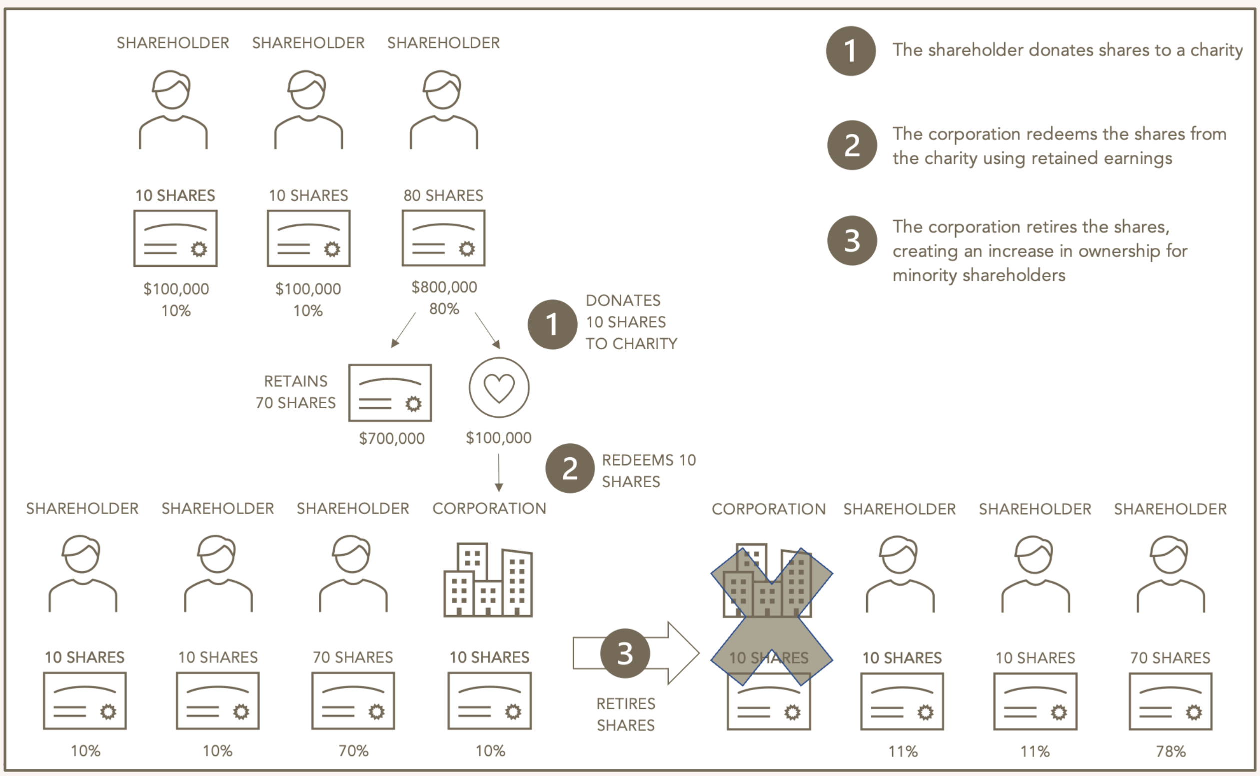

Private Foundations

Might work best for:	Individuals in the accumulation and distribution phases who desire to be charitable with surplus income.
General Tax Benefit:	Contributions may be tax deductible by the donor.
Overview:	A private foundation is a type of charity that takes donations from a family or a business rather than having a wide donor base. Typically, private foundations take their initial donations and invest them. They then use the money gained from those investments and distribute it by means of grants to achieve family giving goals and jumpstart multi-generational giving. Private foundations are often coordinated with other charitable techniques, such as charitable remainder trusts or charitable lead trusts, to maximize the tax and charitable benefits available to the grantor.

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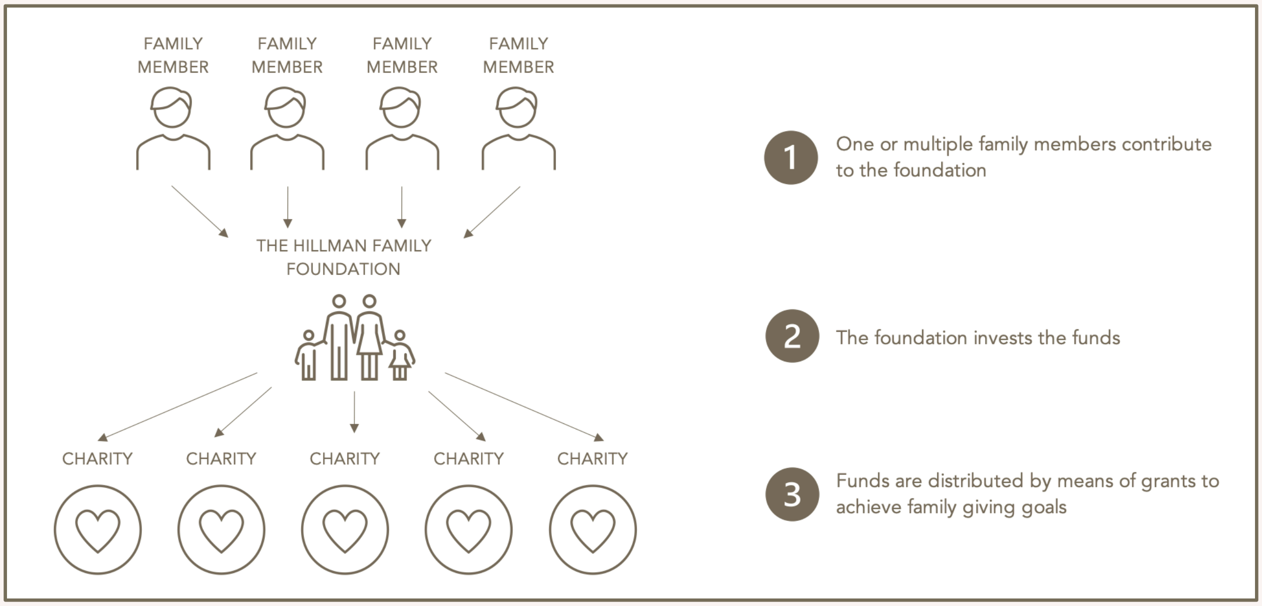

Final Thoughts

Just like a sports team utilizes a playbook as a collection of *all* possible plays and strategies compiled into one book, this playbook includes many possible strategies that are available. How and when to execute each play is based on many factors. The information provided in this playbook is intended for the general audience and is not intended to provide specific advice. We recommend collaborating with your CPA, EA and/or your CERTIFIED FINANCIAL PLANNER™ professional before implementing a strategy.

Don't be afraid to create your own giving style! Your giving should reflect your core values and the causes you care most about. We believe that when people pursue their passions and function in their God-given strengths they can, and will, make a positive impact on the communities where they live.

Connect With Us

If you are interested in staying up to date with charitable giving strategies and inspiring stories, then we would love to connect with you!

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Disclosures

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Echo Collaborative does not provide tax or legal advice. Consult a professional advisor to fully understand the tax, legal or financial consequences of charitable activities. The numbers provided in this document are hypothetical examples and are based on the limits provided by the IRS for the 2022/2023 tax year. AGI deduction limits apply to all strategies. This document is intended to be used in whole – not in part.

Appendix

A. Definitions

ACCUMULATION PHASE
The period of time when an individual builds up, or accumulates, the value of assets owned. For example, a person who is working, contributing to a 401k, and owns real estate.

ADJUSTED GROSS ESTATE
The net worth of a deceased person's estate after deducting any outstanding debts and administrative costs.

ADJUSTED GROSS INCOME (AGI)
A person's gross income less specific adjustments to income that is calculated on an individual's tax return.

DECEDENT
A person that is no longer living.

DISTRIBUTION PHASE
The period of time when an individual distributes or liquidates assets that they previously accumulated. For example, a person who receives income from previously accumulated assets.

FAIR MARKET VALUE (FMV)
The price a product would sell for on the open market assuming that both buyer and seller are reasonably knowledgeable about the asset, are behaving in their own best interests, are free of undue pressure, and are given a reasonable time period for completing the transaction.

LEGACY PHASE
The period of time at or after death (causa mortis) when a donor continues to impact the people and causes he or she designates.

TAXABLE ESTATE
The portion of assets that is subject to estate tax after a person dies determined by accounting for all assets less liabilities the deceased possessed.

TESTAMENTARY GIFT
A gift made by a will.

B. Property Valuation & AGI Ceiling

Type of Property Donated	Valuation for Charitable Deduction	AGI Ceiling
◊ Ordinary Income Property ◊ Short-term Capital Gain Property ◊ All Loss Property	Lesser of the adjusted basis or the fair market value	50% (30% for other private nonoperating foundations*)
Long-term Capital Gain Property ◊ Intangible (stocks, bonds, etc.) ◊ Real Property ◊ Tangible Property (related use)	Either fair market value or the adjusted basis	30% of FMV or 50% of Basis (20% of basis required for other private nonoperating foundations*)
Long-term Capital Gain Property ◊ Tangible Property (unrelated use)	Lesser of the adjusted basis or the fair market value	50% (20% for other private nonoperating foundations*)

*Other private nonoperating foundations are those private foundations that do not distribute within two-and-one-half months of the organization's tax year end

C. Characteristics of Charitable Remainder Trusts

	CRAT	CRUT
Income Tax Deduction	Total value of property less present value of retained *annuity* payments	Total value of property less present value of retained *unitrust* payments
Income Recipient	Noncharitable beneficiary (usually donor)	
Income	At least 5% and no more than 50% of *initial* FMV of assets paid at least annually for life or term ≤20 years (similar to *fixed* annuity)	At least 5% and no more than 50% of *current* FMV of assets (revalued annually) paid at least annually for life or term ≤20 years (similar to *variable* annuity)
Additional Contributions Allowed	No	Yes
When Income is Insufficient for Payment	Must invade corpus	Can pay up to income earned and make up deficiency in subsequent year
Sprinkling Provision	Yes	Yes

Choosing between the CRAT & CRUT: If the trust assets are expected to appreciate, then a CRUT is the better choice, but if the trust assets are expected to depreciate then the CRAT is the better choice.

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