



Special Charitable Financial Planning Opportunities for 2025

Russell James, J.D., Ph.D., CFP®
Professor, Charitable Financial
Planning
Texas Tech University



From simple to
complex

- 1. The strategies**
- 2. How things changed**

Gifts of assets
make sense
because a
drop doesn't
mean it isn't
still worth
more than
you paid for it

Market Summary > S&P 500

May 5, 3:16 PM EDT • Disclaimer

1D

5D

1M

6M

YTD

1Y

5Y

Max

7,000

2,929.80 May 8, 2020

6,000

5,000

4,000

3,000

2,000

2021

2022

2023

2024

2025



Even in the worst of times (2020), not everything dropped

- Gold TTM price: +28.5%
- NCREIF Farmland property index 2020 Annual Total +3.85%
- Walmart, Amazon, Pharmaceuticals, Clorox were big winners early on

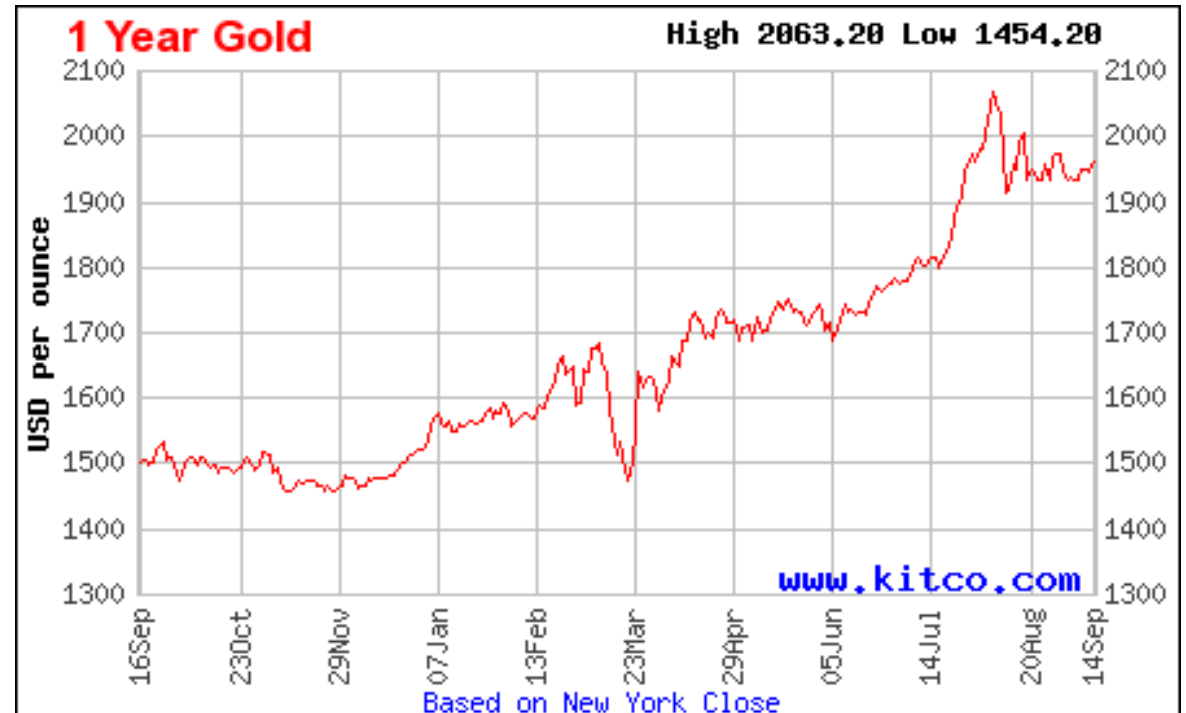
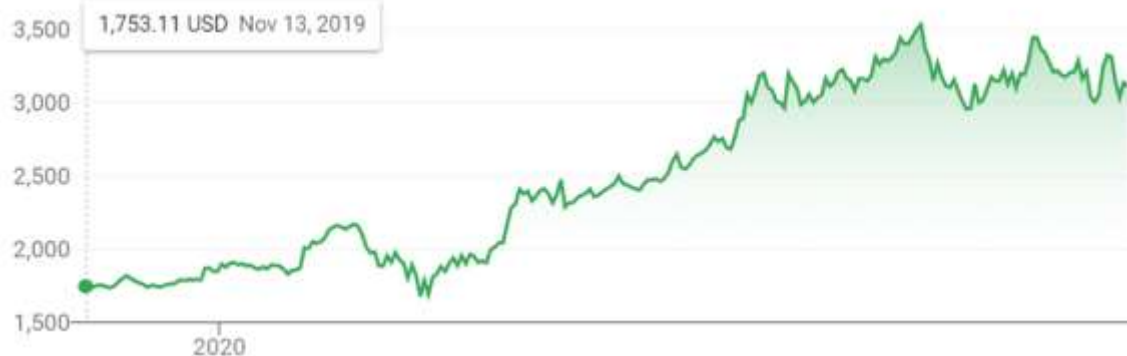
Market Summary > Amazon.com, Inc.
NASDAQ: AMZN

+ Follow

3,110.28 USD -27.11 (0.86%) ↓

Closed: Nov 12, 5:26 PM EST - Disclaimer
After hours 3,111.36 +1.08 (0.035%)

1 day 5 days 1 month 6 months YTD **1 year** 5 years Max



Appreciated asset gifts are objectively cheaper



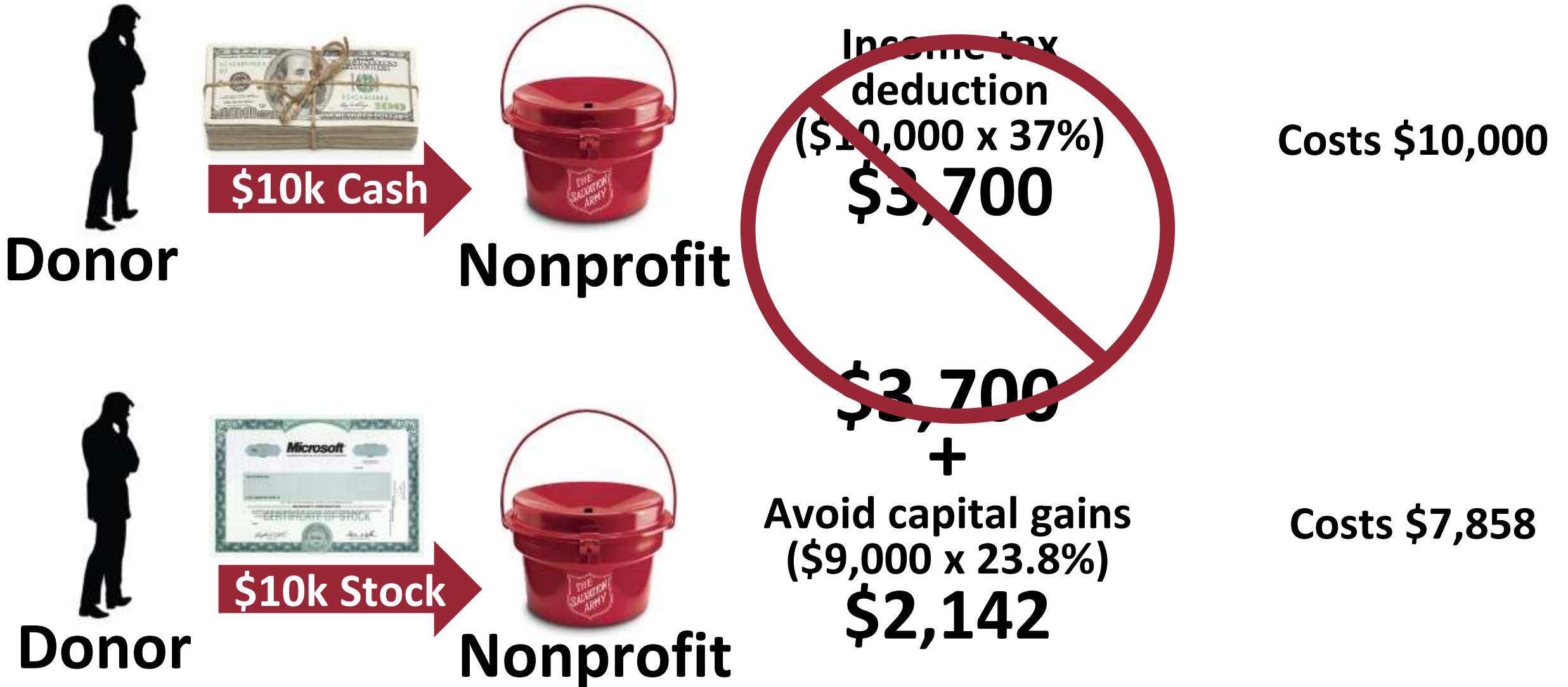
**Tax
deduction
only**

**Tax deduction
+
Avoid capital
gains tax**

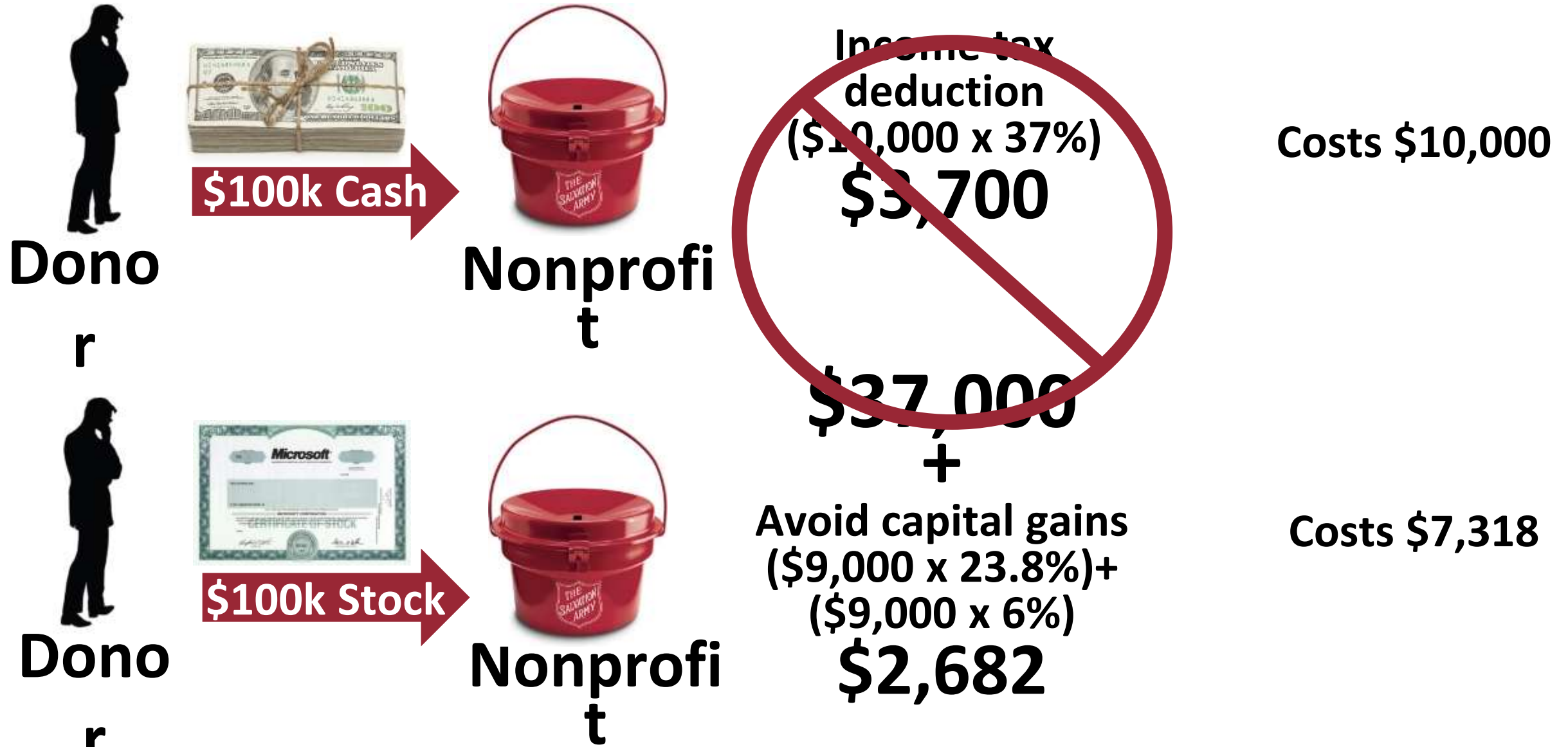
Asset gifts are cheaper for itemizers



Asset gifts are cheaper for non-itemizers

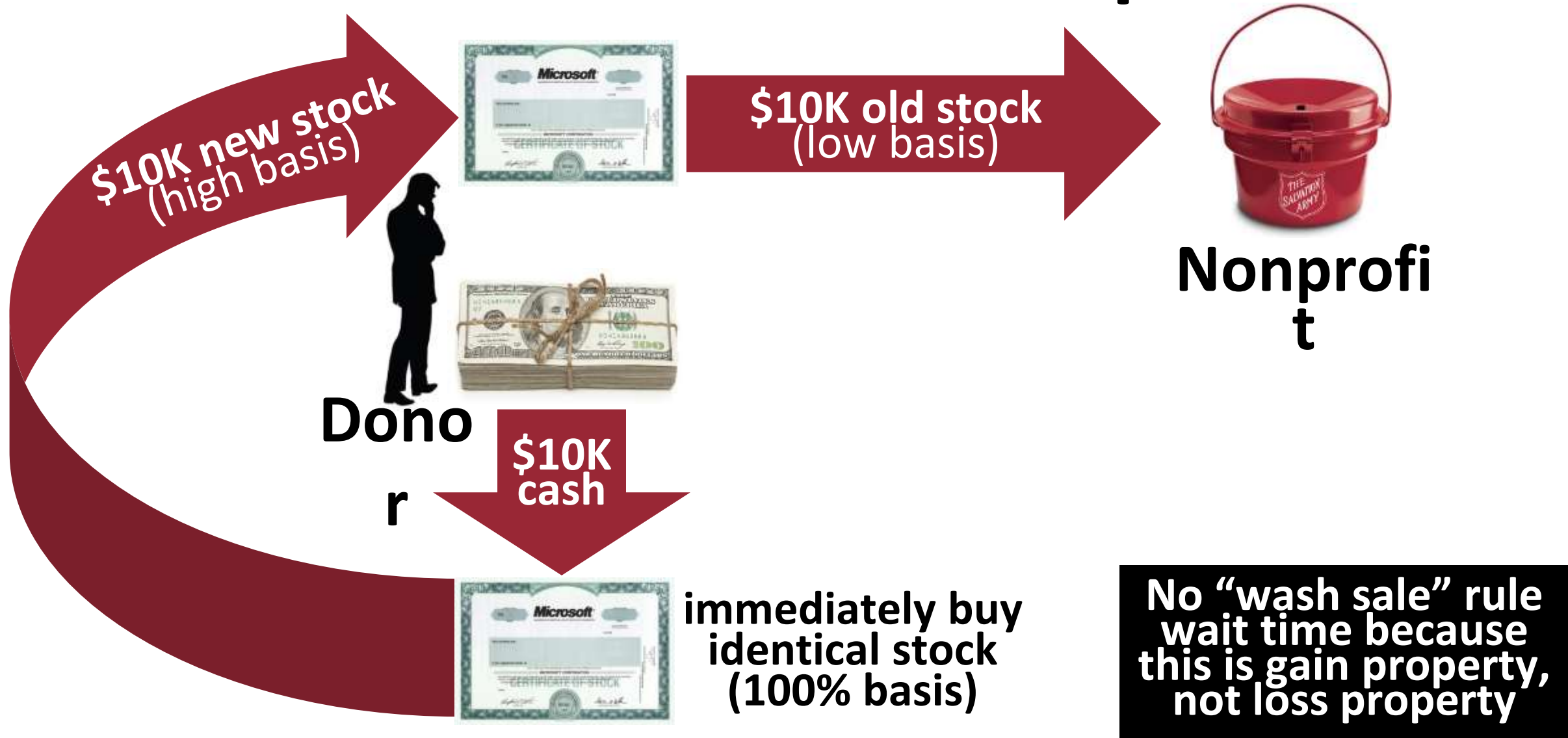


Asset gifts are cheaper for non-itemizers (especially with state capital gains taxes)

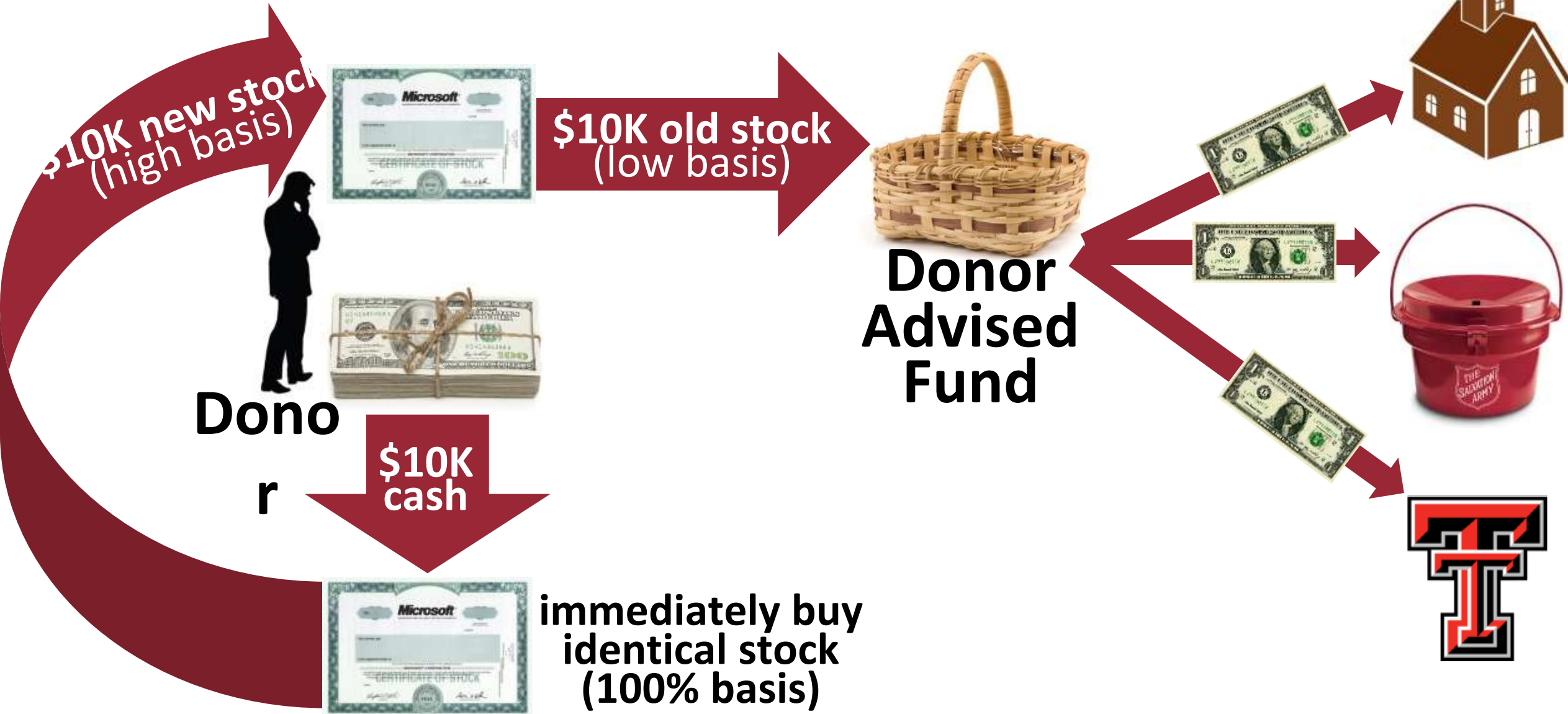


No need to change your portfolio!

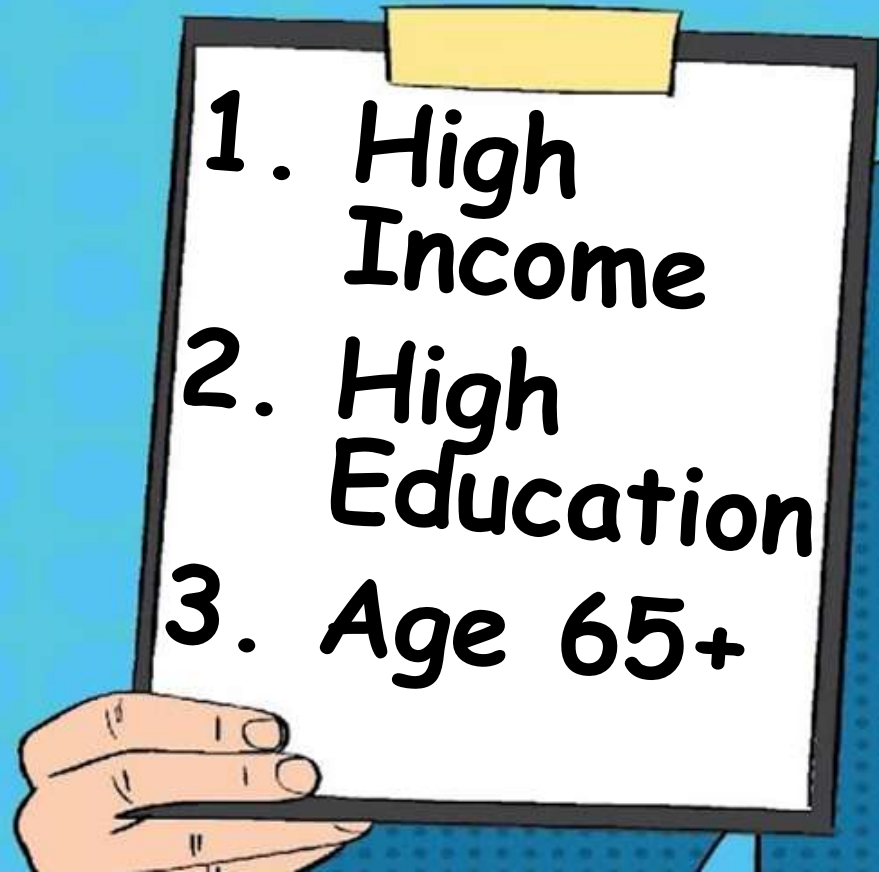
The Charitable Swap



The Charitable Swap with a DAF



What predicts who will donate noncash assets?



1. High Income
2. High Education
3. Age 65+

No significant differences for gender, other age distinctions, marriage, childlessness, African-American, Caucasian, Asian

Tax incentives matter more



1. Giving cash to education was 2x more responsive to tax price than giving cash to religion
2. Giving stocks, bonds, or mutual funds to any charity was 10x more responsive to tax price than giving cash to education

How to talk about gifts of assets



**Should
you
mention
tax
benefits?**



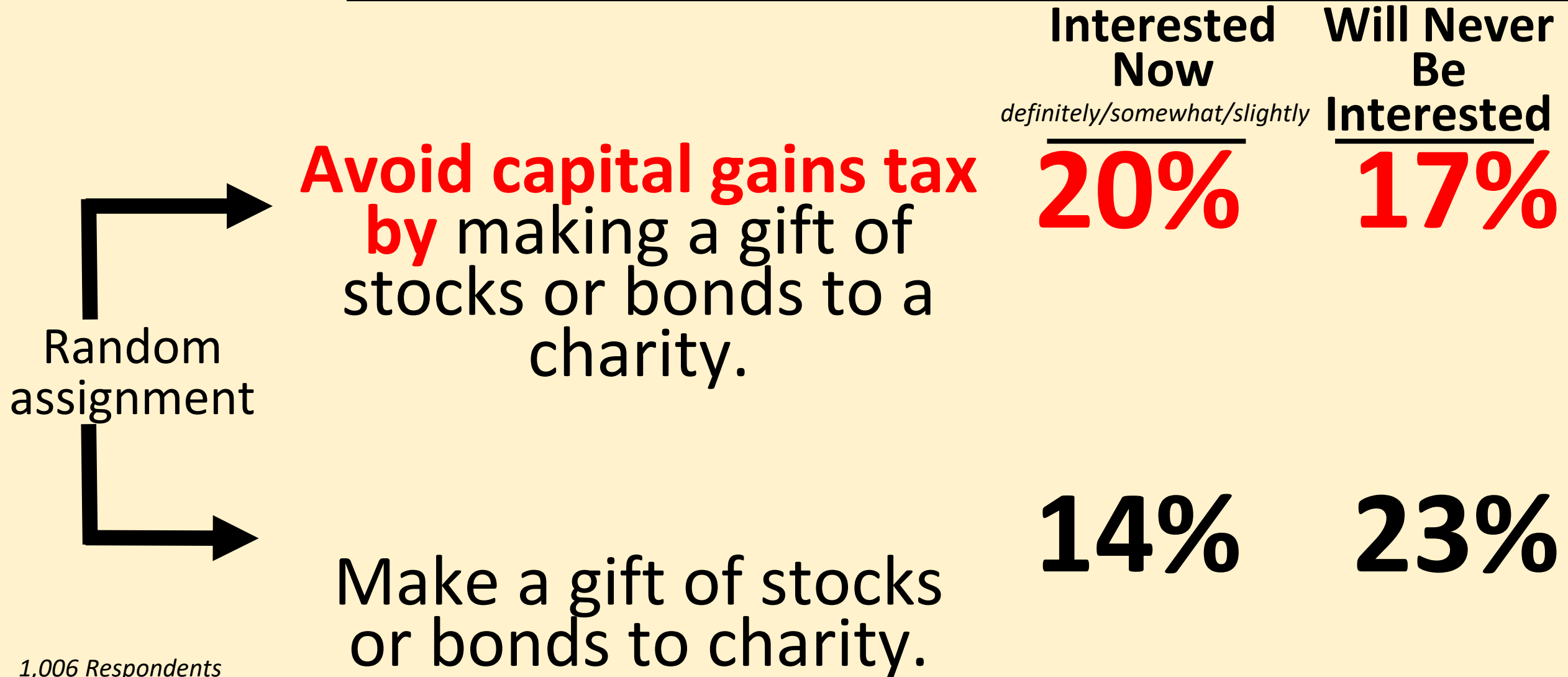
Social Desirability Bias

People report
socially-approved
motivations

Other motivations
must be tested,
not self-reported



Mentioning tax deductions increases charitable interest



Random
rotating
assignment

Mentioning tax deductions increases charitable interest

**Interested
Now**
definitely/somewhat/slightly

**Will Never
Be
Interested**

50%

**Receive a tax
deduction and** make a
gift that pays you
income for life.

8%

33%

Make a gift that pays you
income for life **and**
receive a tax deduction.

14%

31%

Make a gift that pays you
income for life.

20%

Random
rotating
assignment

Mentioning tax deductions increases charitable interest

**Interested
Now**
definitely/somewhat/slightly

26%

Immediately receive a tax deduction for 70% of the value of a house or land by making a charitable gift of the property, but keeping the RIGHT TO USE it for the rest of your life.

**Will Never
Be
Interested**

23%

12%

Make a charitable gift of either a house or land, but keep the RIGHT TO USE for the rest of your life **and immediately receive a tax deduction for 70% of the value of the property.**

33%

11%

Make a charitable gift of either a house or land, but keep the RIGHT TO USE it for the rest of your life.

42%

Random
rotating
assignment

Mentioning tax deductions increases charitable interest

**Interested
Now**

definitely/somewhat/slightly

28%

Get an immediate tax deduction

by making a gift where you still control the investment of the assets, and receive income from the investments for the rest of your life with anything left over going to charity at your death.

**Will Never
Be**

Interested

17%

27%

Make a gift where you **get an immediate tax deduction**, still control the investment of the assets and receive income from the investments for the rest of your life with anything left over going to charity at your death.

20%

21%

Make a gift where you still control the investment of the assets, and receive income from the investments for the rest of your life with anything left over going to charity at your death.

25%

**Best phrasing
to describe
tax benefits**



I might
be/am
definitely
interested

___%

___%

___%

___%

___%

___%

**Please rate your level of interest
in clicking on the button to read
the corresponding information.**

Avoid taxes by giving stocks

**How to avoid taxes by giving
stocks**

Save taxes by giving stocks

Tax tips when giving stocks

**Avoiding capital gains taxes by
giving stocks**

Giving stocks

I might
be/am
definitely
interested

**Please rate your level of interest
in clicking on the button to read
the corresponding information.**

28%

Avoid taxes by giving stocks

27%

**How to avoid taxes by giving
stocks**

25%

Save taxes by giving stocks

24%

Tax tips when giving stocks

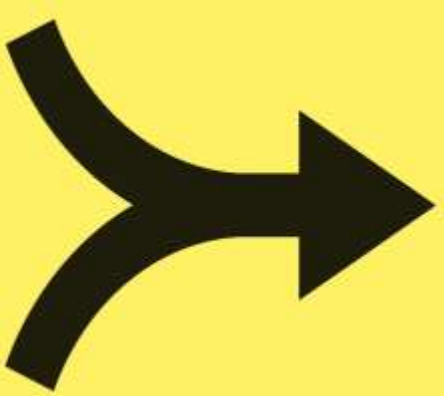
24%

**Avoiding capital gains taxes by
giving stocks**

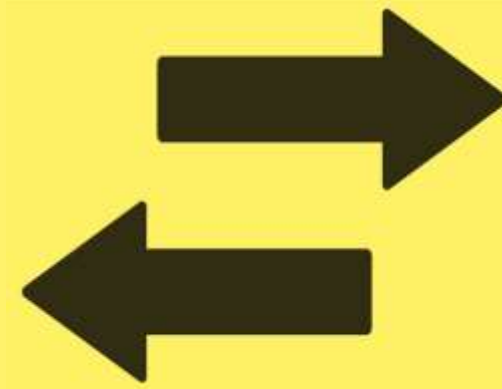
16%

Giving stocks

James, R. N., III (2018). Describing
complex charitable giving instruments:
Experimental tests of technical finance
terms and tax benefits. Nonprofit
Management and Leadership. Advance
Online Publication. DOI:
10.1002/nml.31302



Behavioral economics: Matches create more giving than financially identical



Match framing rebates

- “Your giving becomes more powerful when you get the government to match your gift with tax benefits.”
- “We want the government to chip in more, so that your giving has a greater impact.”
- “It’s smarter to get the government to share the cost of your gift because it makes your giving more powerful.”

Rebate framing

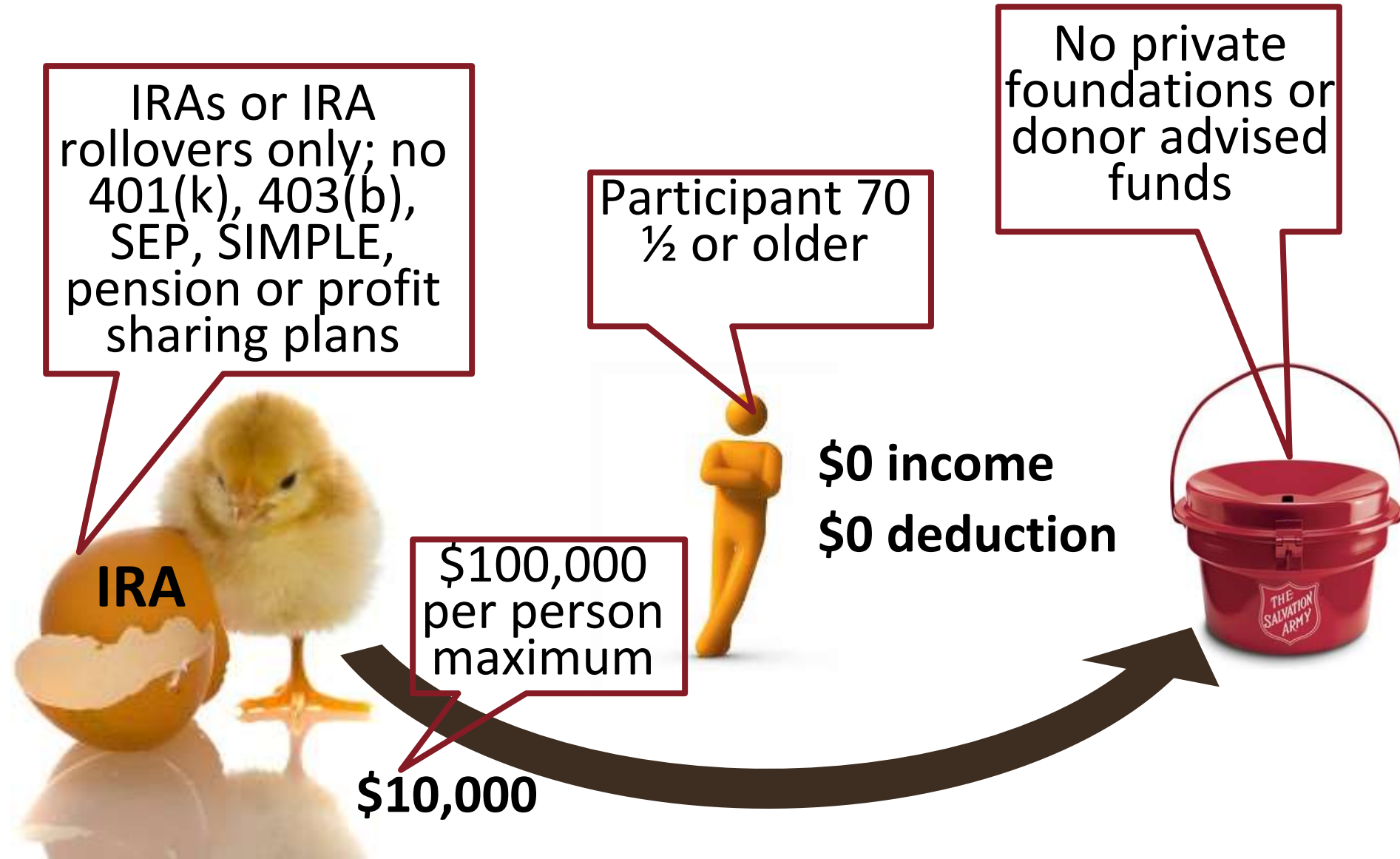
- “The government gives you money back for your philanthropy.”
- “This way you get the maximum cash in your pocket from your giving.”



Accepting noncash gifts is safer today

- Using DAFs that accept any asset type
- Using new instruments like the single-asset LLC
- But avoid pre-arranged sales! (TC Memo 2023-34 confirms)

Reduces Required Minimum Distributions (age 73+) but you can still give up to \$108,000 with QCDs (age 70½+)



New in 2023, transfer to a charitable gift annuity



Entire amount counts toward RMD

\$54,000 per person maximum lifetime

Payable only to participant and spouse [non-assignable!]

100% taxable income

5% min payout



...



2025

2026 2027 2028 2029 2030 ... Death

Beware of the traps

- Don't use standard CGA document – must be nonassignable
- Must be 5% minimum payout (even when paying both spouses) – ACGA 72-75 + 63 or younger is under this!
- Still 10%+ charitable present value (otherwise it's not a CGA and you are selling a security)
- Must be completely separate CGA; No joint funding/ combinations/ later additions





Beware of other issues

- Warning – be ready for CGA requests at odd amounts, exactly matching RMD for the year
- Should you even market this? Is it extra money or just cannibalizing QCDs?
- Technically, you can send to a CRT, but currently admin/drafting costs are likely prohibitive

Charitable Gift Annuities



The hot new item?

2025 rates

30 3.7%

40 3.9%

45 4.0%

50 4.2%

55 4.3%

60 4.9%

65 5.4%

70 5.9%

75 6.6%

80 7.6%

85 7.6%

90+ 9.7%

Example donor ages & rates

Jan 2024, American Council on Gift Annuities



2021 rates

30 2.1%

40 2.6%

45 2.9%

50 3.3%

55 3.7%

60 3.9%

65 4.2%

70 4.7%

75 5.4%

80 6.5%

85 7.6%

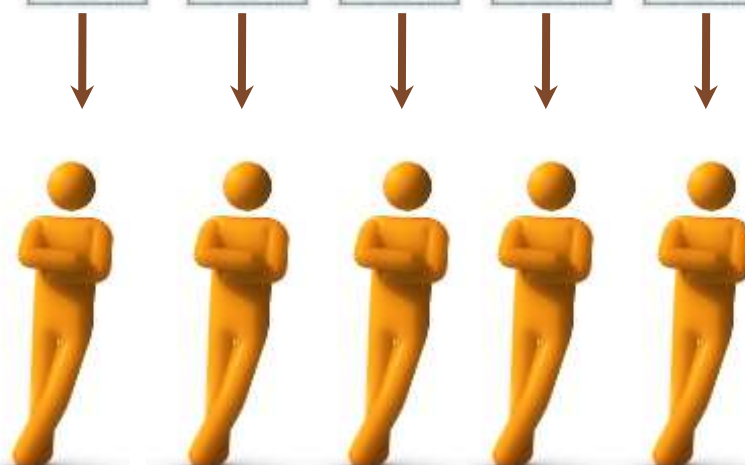
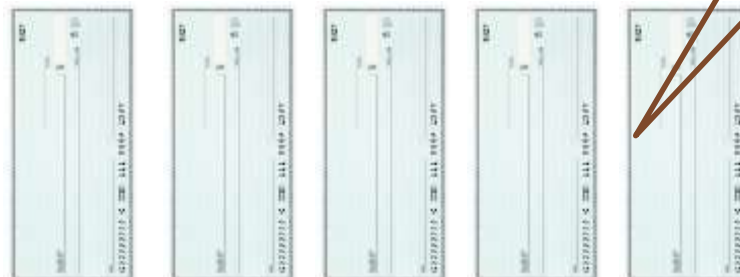
90+ 8.6%

Charity

Payments are a fixed obligation of the charity, regardless of market events



2025



2026 2027 2028 2029 2030

...



Death



I want income
that won't change
(*CRUT or PIF*)
or run out
(*CRAT*)



Taxation of Charitable Gift Annuities

Ordinary
Income

Tax Free
Return of
Investmen

Capital
Gain

Gift Taxes



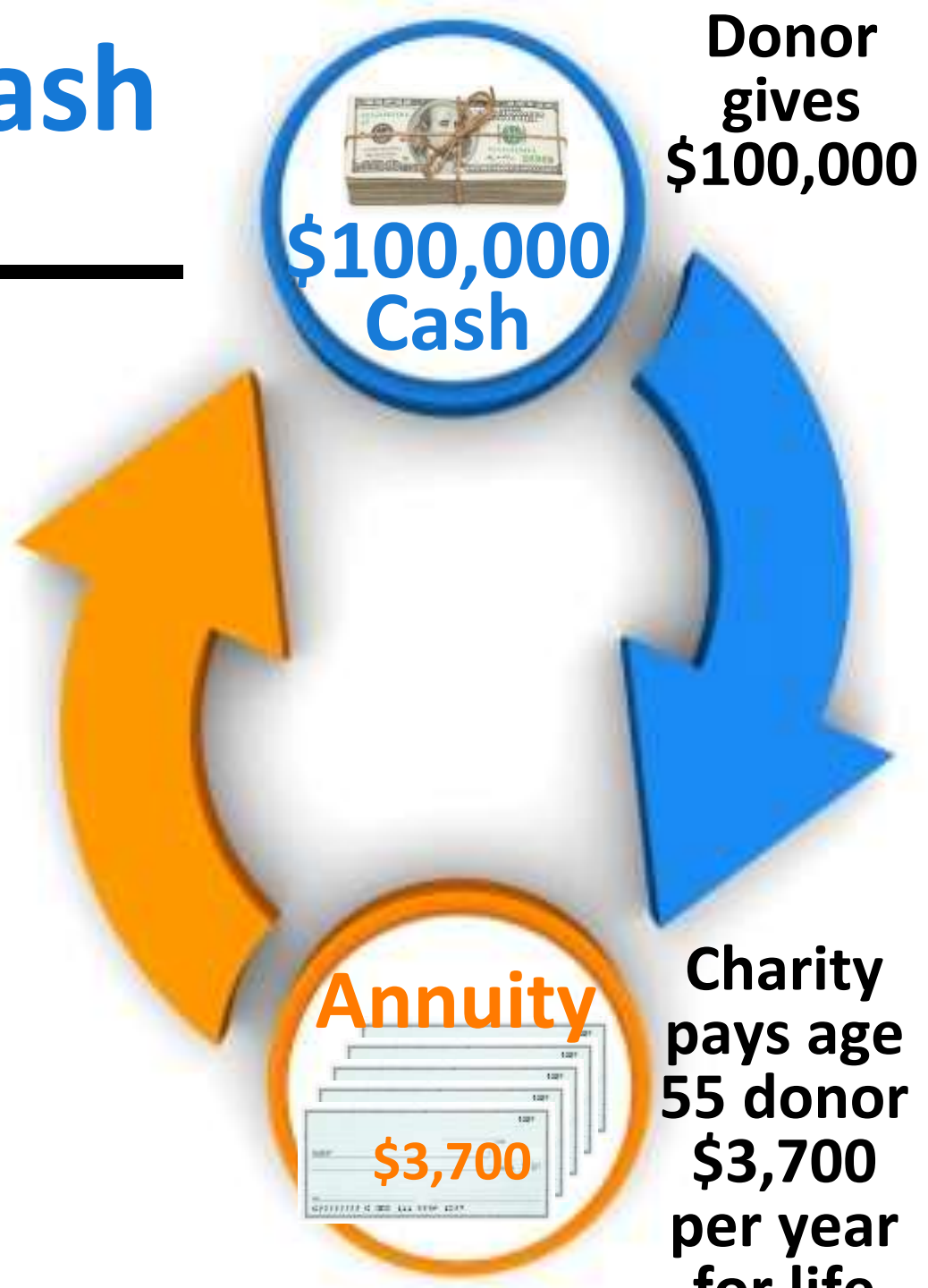
Charitabl
e
Reduction

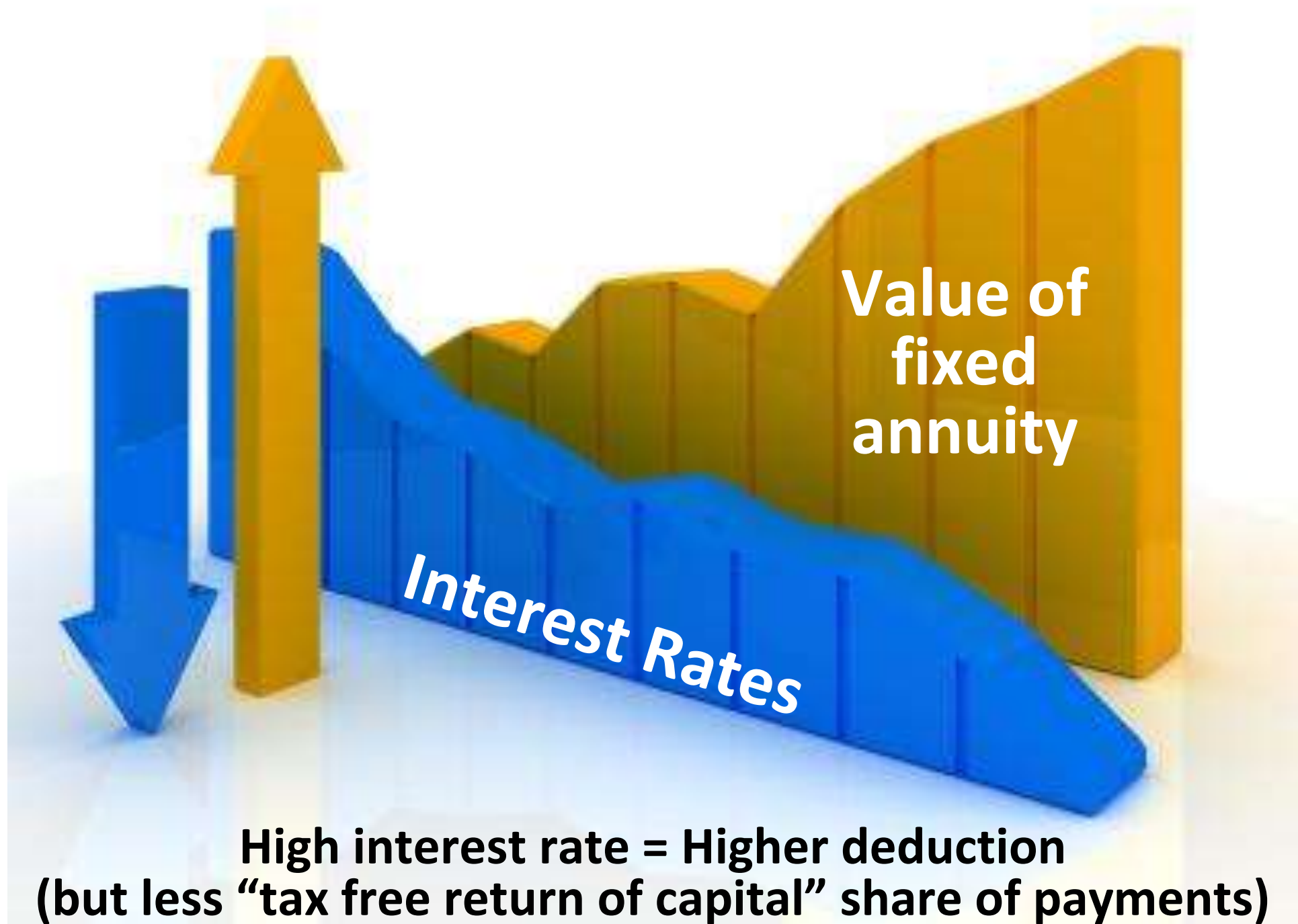


**Charitable
deduction
is the
value of
what you
give less
the value
of what
you get
back**

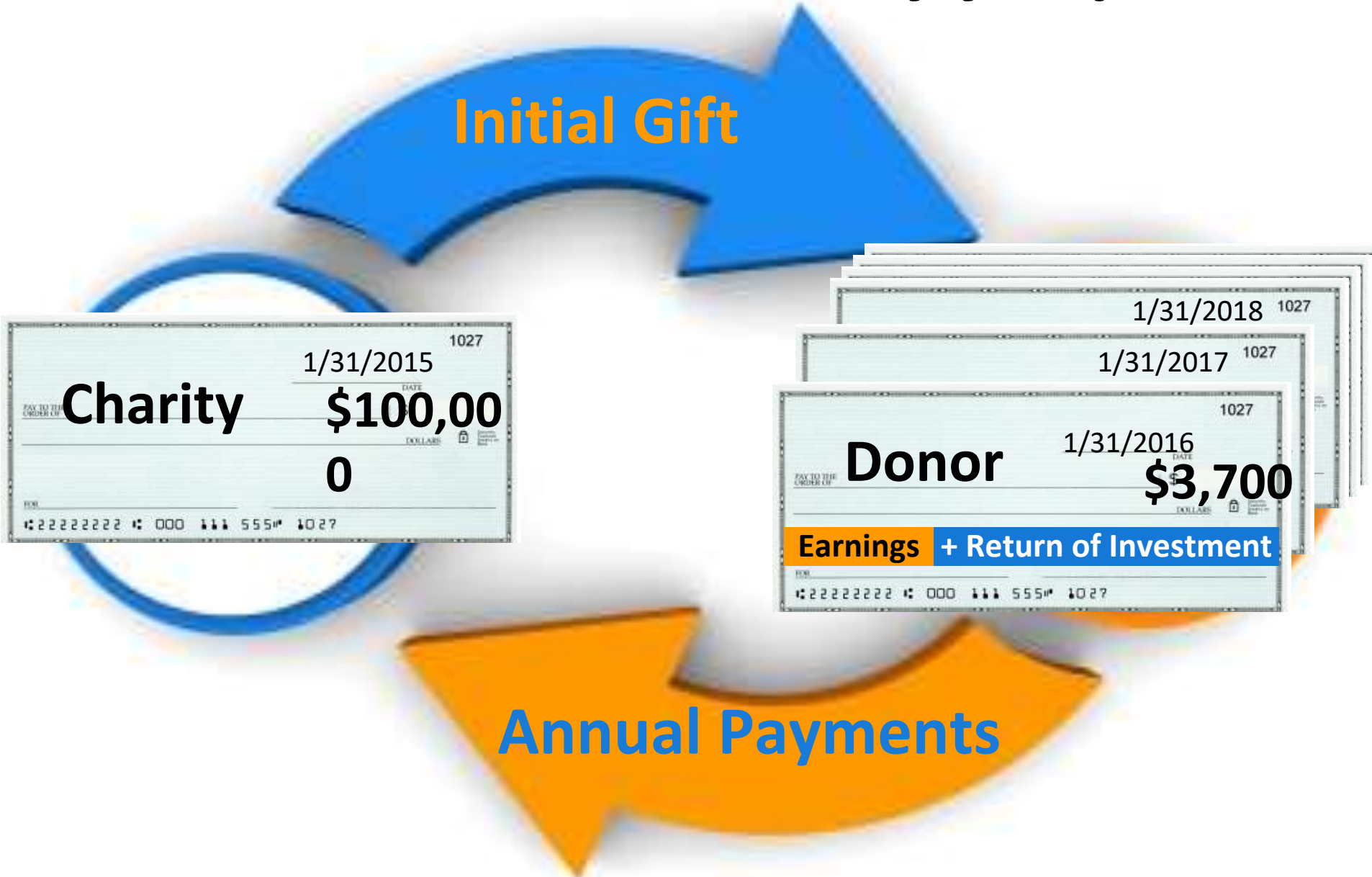


\$100,000 Cash
— Value of
Annuity
Charitable
Deduction

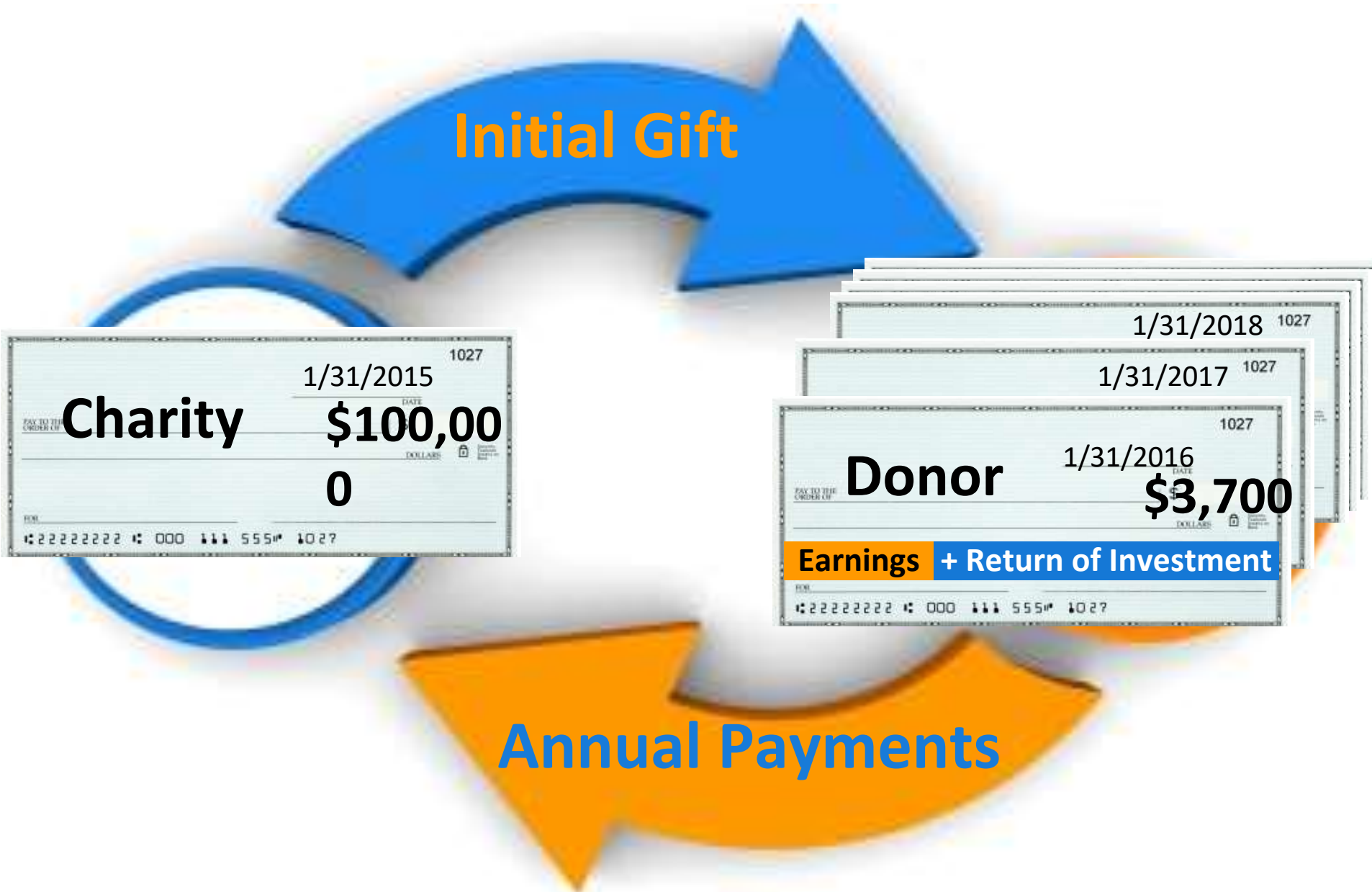




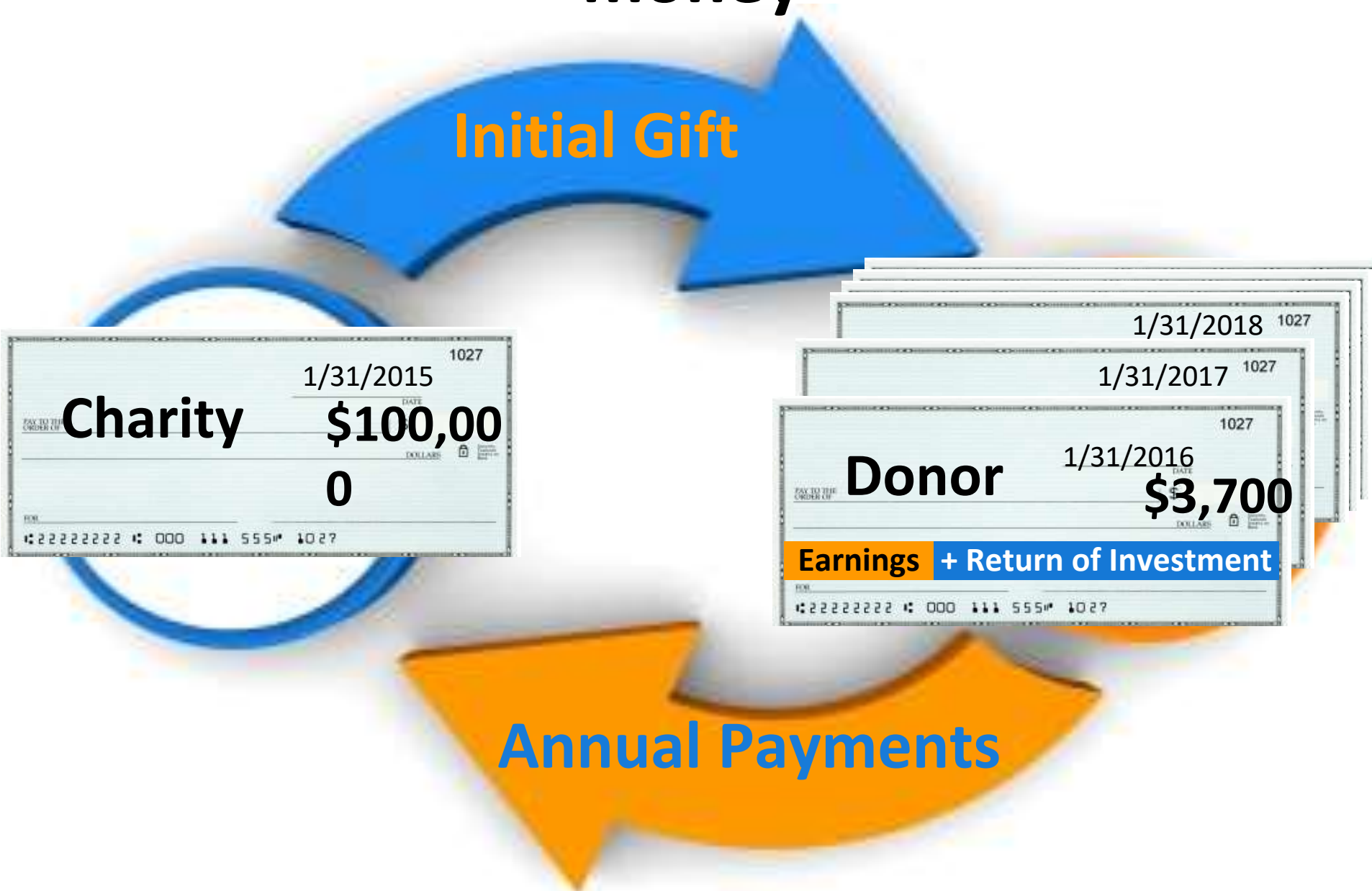
Part of each annuity check just gives you back some of the money you paid

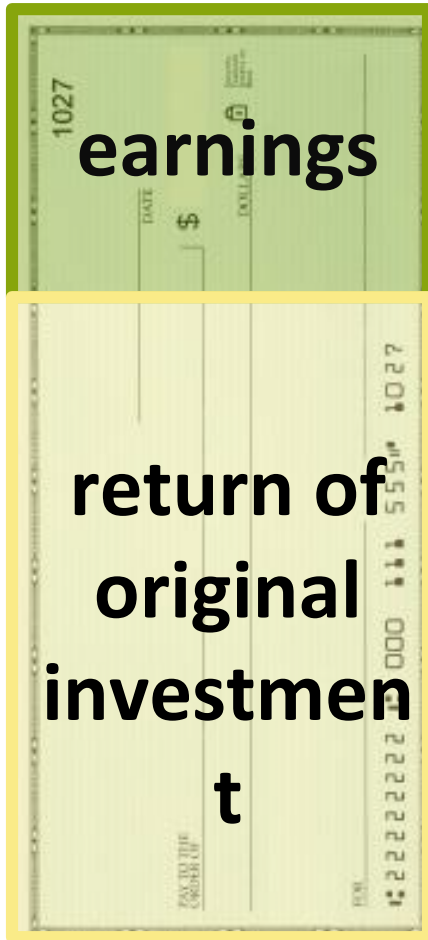


The rest is earnings (taxable)



There is NO tax on getting back your own money





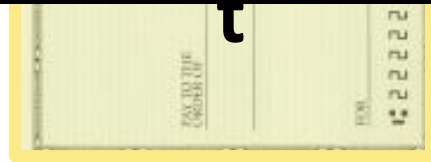
NOT the deductible gift
part of the transaction

$$\frac{\$ \text{ used to buy annuity}}{\text{Original life expectancy}} = \text{Annual return of investment}$$

If funded with an IRA this doesn't



100% taxable!



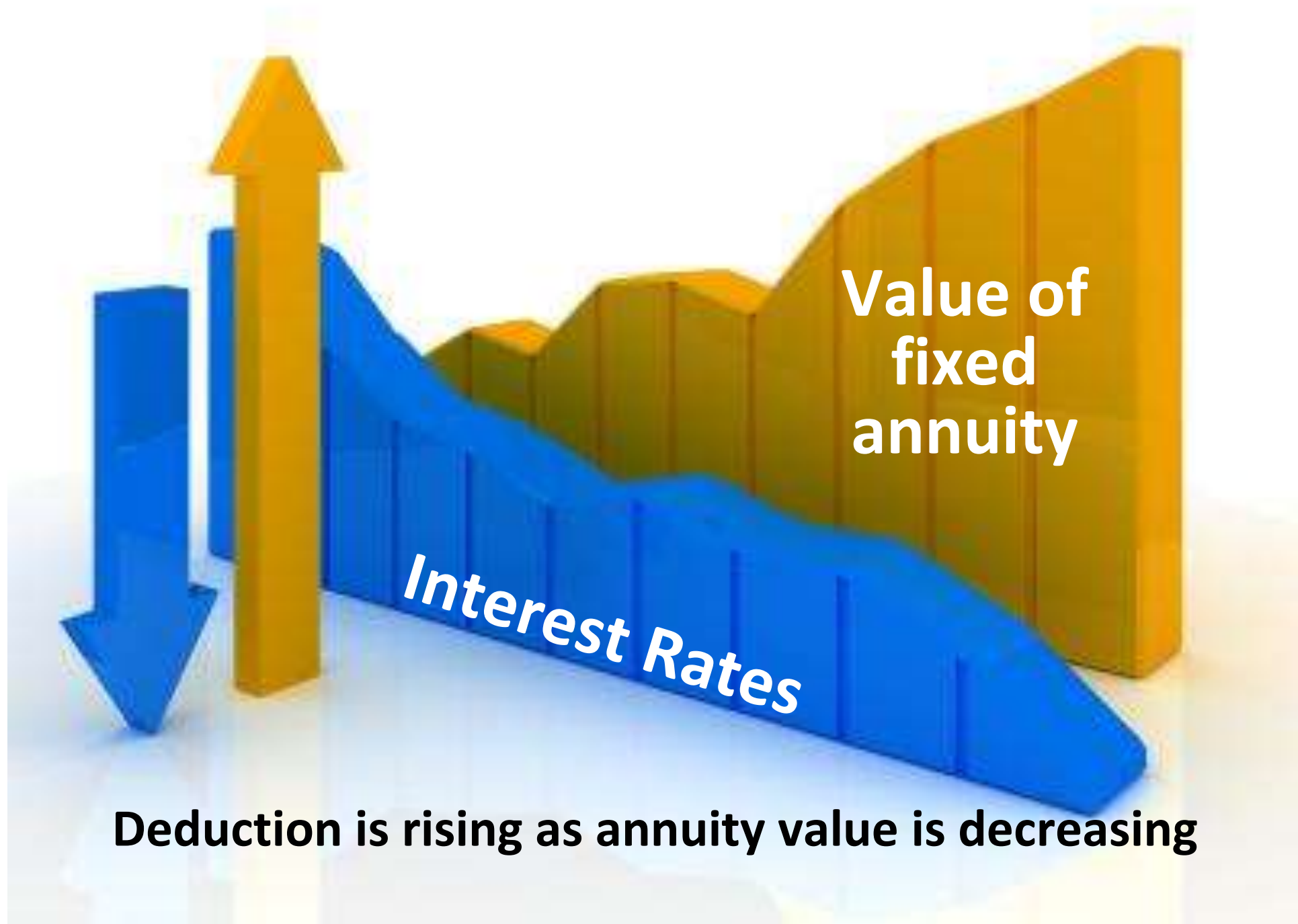
NOT the deductible gift
part of the transaction

$$\frac{\$ \text{ used to buy annuity}}{\text{Original life expectancy}}$$

=

Annual return
of investment





Testing Charitable Gift Annuity Ad Messages



People like me do
things like this

James, R. N., III (2019).
Using donor images in
marketing complex
charitable financial
planning instruments: An
experimental test with
charitable gift annuities.
Journal of Personal
Finance. 18(1), 65-74.

What “you” would do or what another donor has done?

You make a gift and receive a tax deduction and yearly income for life. Any unused gift amount will go to the charity at the end of your life.

Gift Annuity

Interested Now

Definitely/somewhat/slightly

All: _____%

55+: _____%

Sara made a gift and received a tax deduction and yearly income for life. Any unused gift amount will go to the charity at the end of her life.

Gift Annuity

All: _____%

55+: _____%

Please rate your interest in pursuing the above described charitable giving arrangement

What “you” would do or what another donor has done?

You make a gift and receive a tax deduction and yearly income for life. Any unused gift amount will go to the charity at the end of your life.

Gift Annuity

Interested Now

Definitely/somewhat/slightly

All: 33.5%

55+: 23.2%

Sara made a gift and received a tax deduction and yearly income for life. Any unused gift amount will go to the charity at the end of her life.

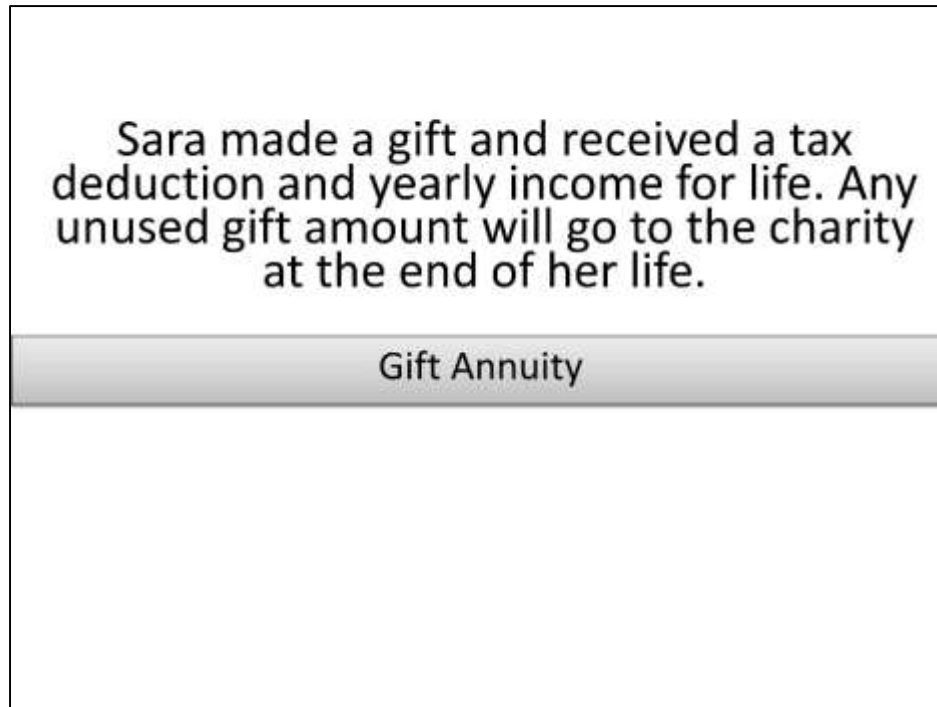
Gift Annuity

All: 38.6%

55+: 38.6%

Please rate your interest in pursuing the above described charitable giving arrangement

Text only or text and donor picture?



Please rate your interest in pursuing the above described charitable giving arrangement: % Interested now (definitely/somewhat /slightly)

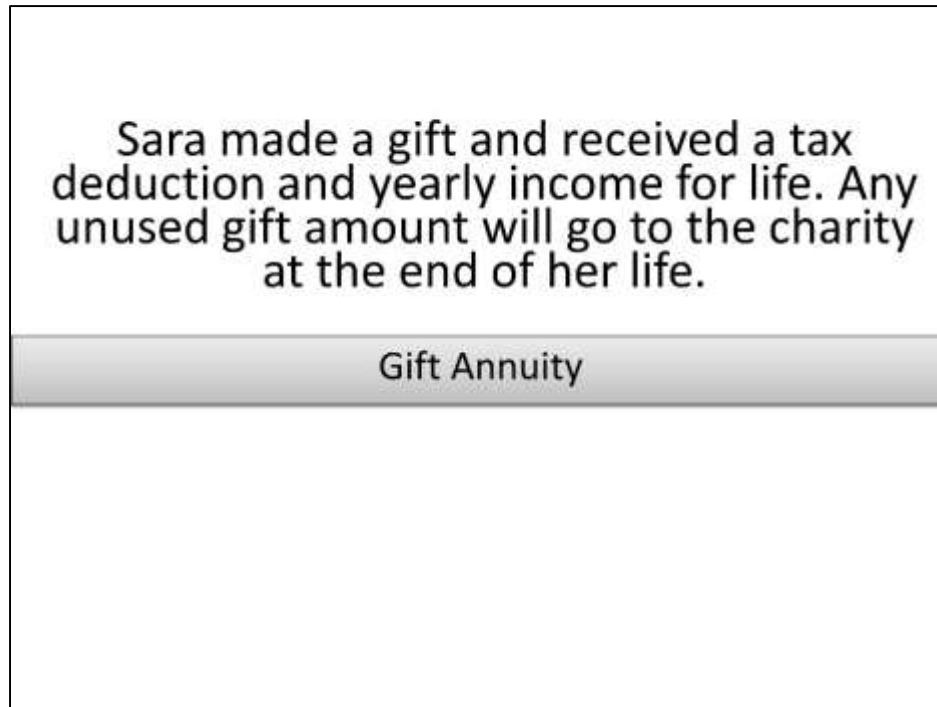
All: ____%

55+: ____%

All: ____%

55+: ____%

Text only or text and donor picture?



Please rate your interest in pursuing the above described charitable giving arrangement: % Interested now (definitely/somewhat /slightly)

All: 38.6%

55+: 38.6%

All: 31.1%

55+: 29.8%

What's the problem with the donor picture? Is it just this photo? This donor age? Is it photos in general or what?



Sara made a gift and received a tax deduction and yearly income for life. Any unused gift amount goes to the charity at the end of her life.



Gift Annuity

Interested now (definitely/somewhat /slightly)

55+
_____%

35-54
_____%

U-35
_____%

Sara made a gift and received a tax deduction and yearly income for life. Any unused gift amount goes to the charity at the end of her life.



Gift Annuity

_____%

_____%

_____%

Sara made a gift and received a tax deduction and yearly income for life. Any unused gift amount goes to the charity at the end of her life.



Gift Annuity

_____%

_____%

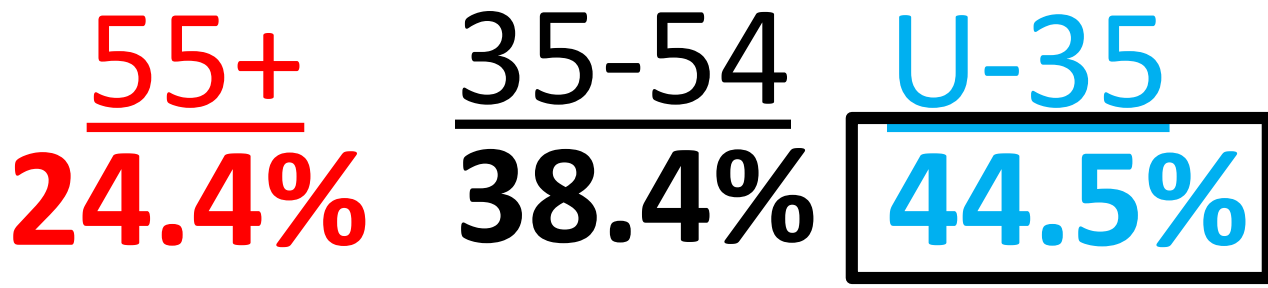
_____%

Sara made a gift and received a tax deduction and yearly income for life. Any unused gift amount goes to the charity at the end of her life.



Gift Annuity

Interested now (definitely/somewhat /slightly)



Sara made a gift and received a tax deduction and yearly income for life. Any unused gift amount goes to the charity at the end of her life.



Gift Annuity



Sara made a gift and received a tax deduction and yearly income for life. Any unused gift amount goes to the charity at the end of her life.

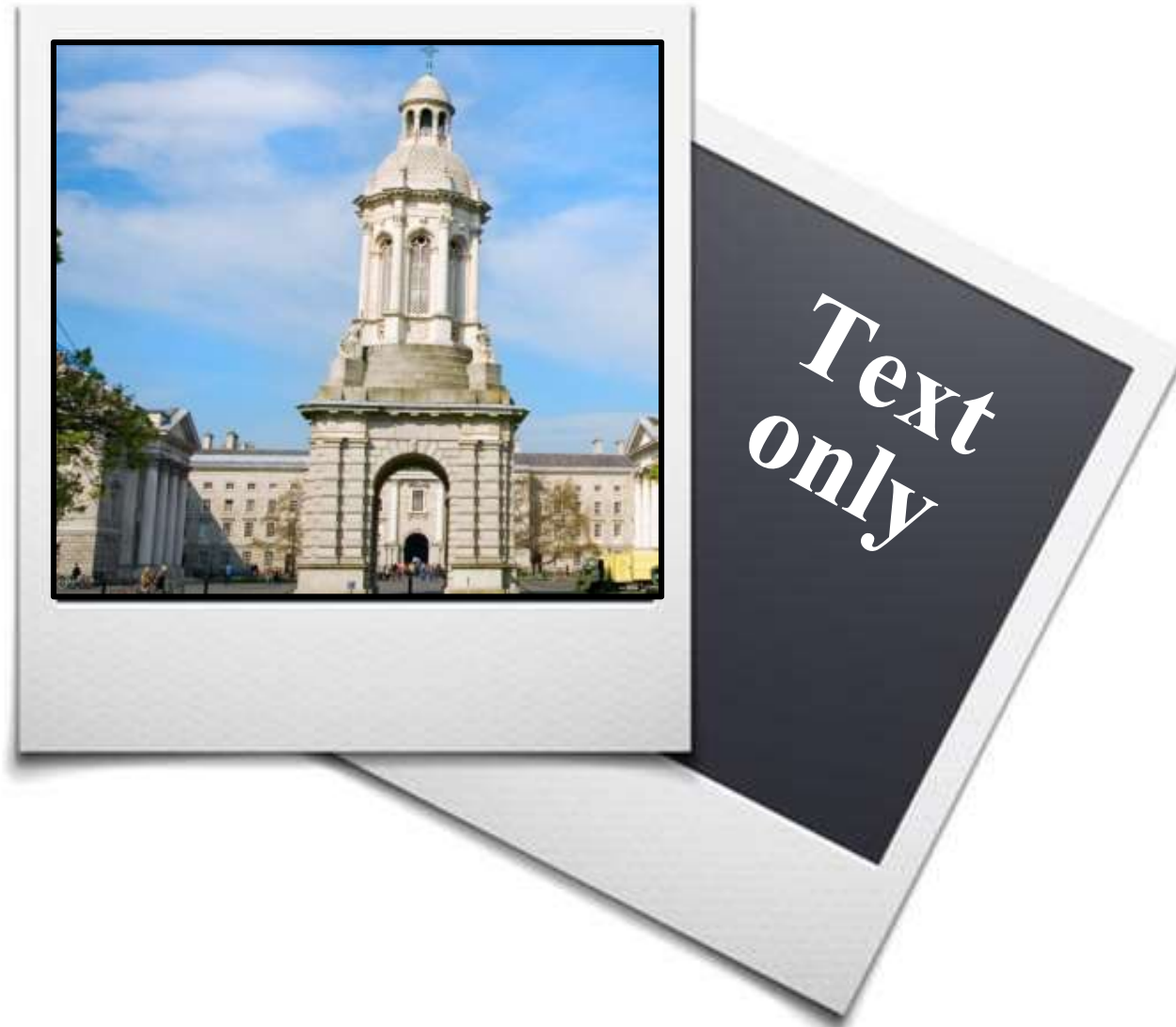


Gift Annuity

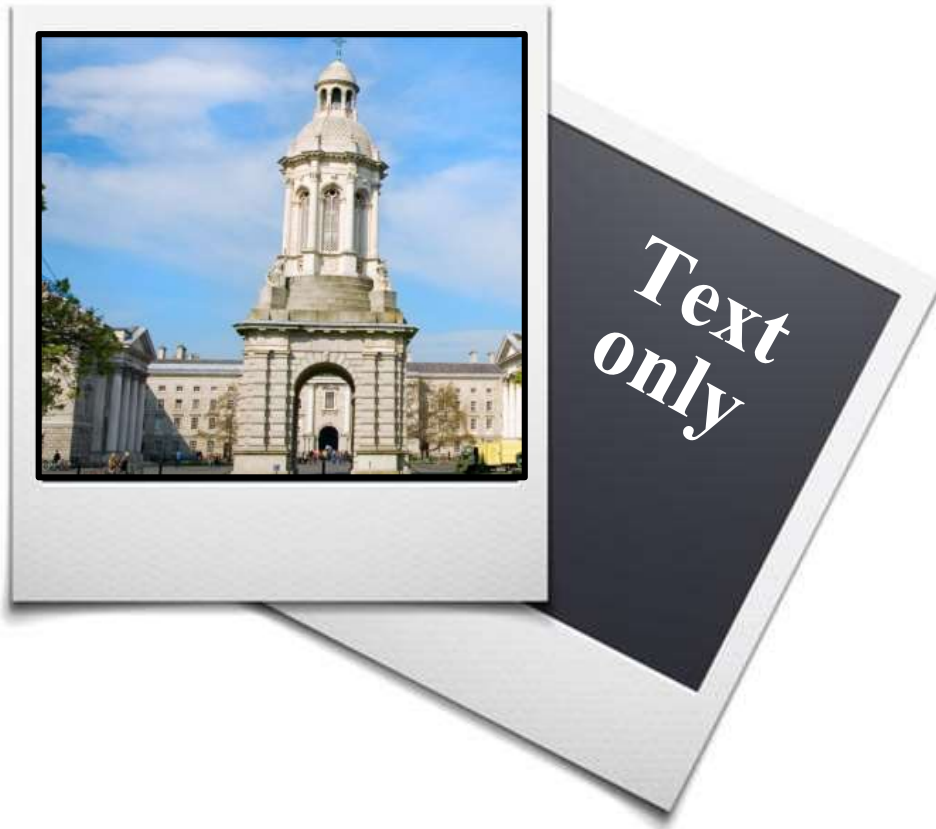


People like me do things like this

How do these compare with text only or a non-donor photo?



**Similar [dissimilar] age donor photos
did better [worse] than text only or
non-donor photo**



Why?

**The association was
completely explained
(mediated) by the
answer to one
question...**

How much do you identify with Sara?

—

- ☐ She is not at all like me
- ☐ She is not really like me
- ☐ She is a little bit like me
- ☐ She is somewhat like me
- ☐ She is a lot like me

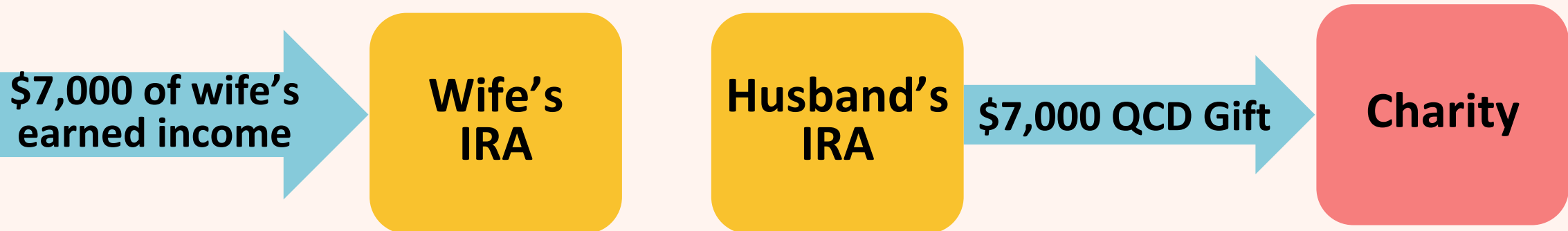
People like me do things like this

The SECURE Act's "above-the-line" charitable deduction

A donor couple has earned income, but doesn't want to add to combined IRA balance



RESULT:
An unusable itemized deduction



RESULT:
An above-the-line \$7,000 deduction for Wife's IRA contribution regardless of her age.
No change in combined IRA balance: \$7,000 shift from Husband's IRA to Wife's IRA.
A \$7,000 reduction in Husband's Required Minimum Distribution with no income recognition.



**Retirement
plan assets
inherited by
non-charitable
beneficiaries
are reduced by
income tax**

**A client with a
\$1MM IRA and
a \$1MM house
wants to leave
one to her child
and one to
charity**

**Does it matter
which goes
where?**



IRA(child); House(charity)

\$1,000,000 House
\$1,000,000 to charity

\$1,000,000 IRA
-\$370,000 (37% federal income tax)
-\$143,000 (14.3% California state income tax)

\$487,000 to child
**SECURE Act now requires
faster withdraw (10 years)**

Often starts immediately – IRS Notice 2023-54 provides transition relief waiving the RMD penalty for these heirs.

IRA(charity); House(child)

\$1,000,000 IRA
\$1,000,000 to charity

\$1,000,000 House
-\$0 (no income tax)
\$1,000,000 to child



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



Retirement plan charitable beneficiaries



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

Bad retirement plan death beneficiaries

- Not Charitable Lead Trusts (because they aren't tax exempt)
- Avoid naming estate as beneficiary with instructions in estate documents (estate itself may have to pay income taxes)



Easy answers to a misunderstood issue

Problem? Charities are not “designated beneficiaries”, so might accelerate RMD’s 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)

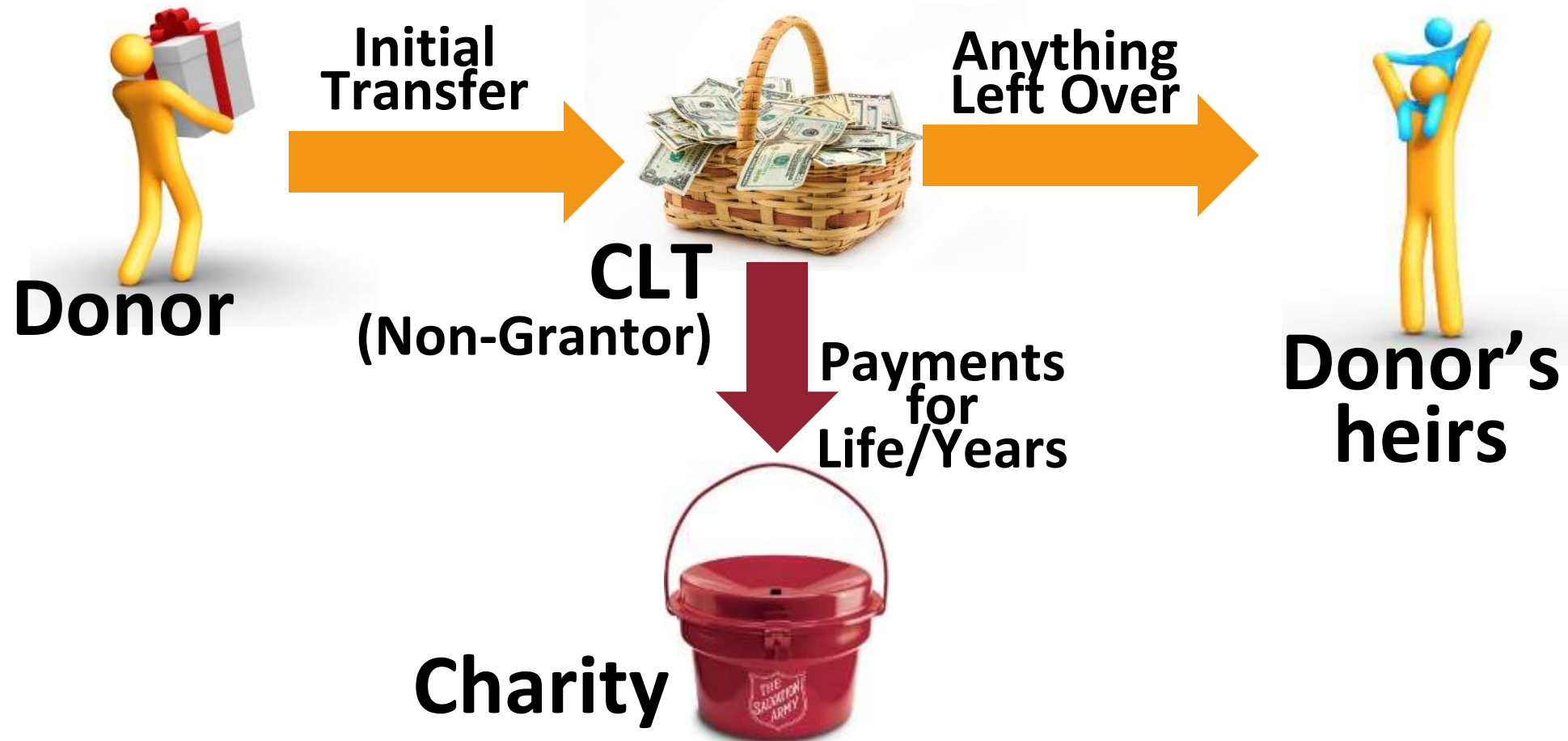


1. Treas. Reg. sec. 1.401(a)(9)-4 Q&A 4(a)

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

Non-Grantor Charitable Lead Trust

Donor gives money from which charity receives payments, with remaining amount going to family members





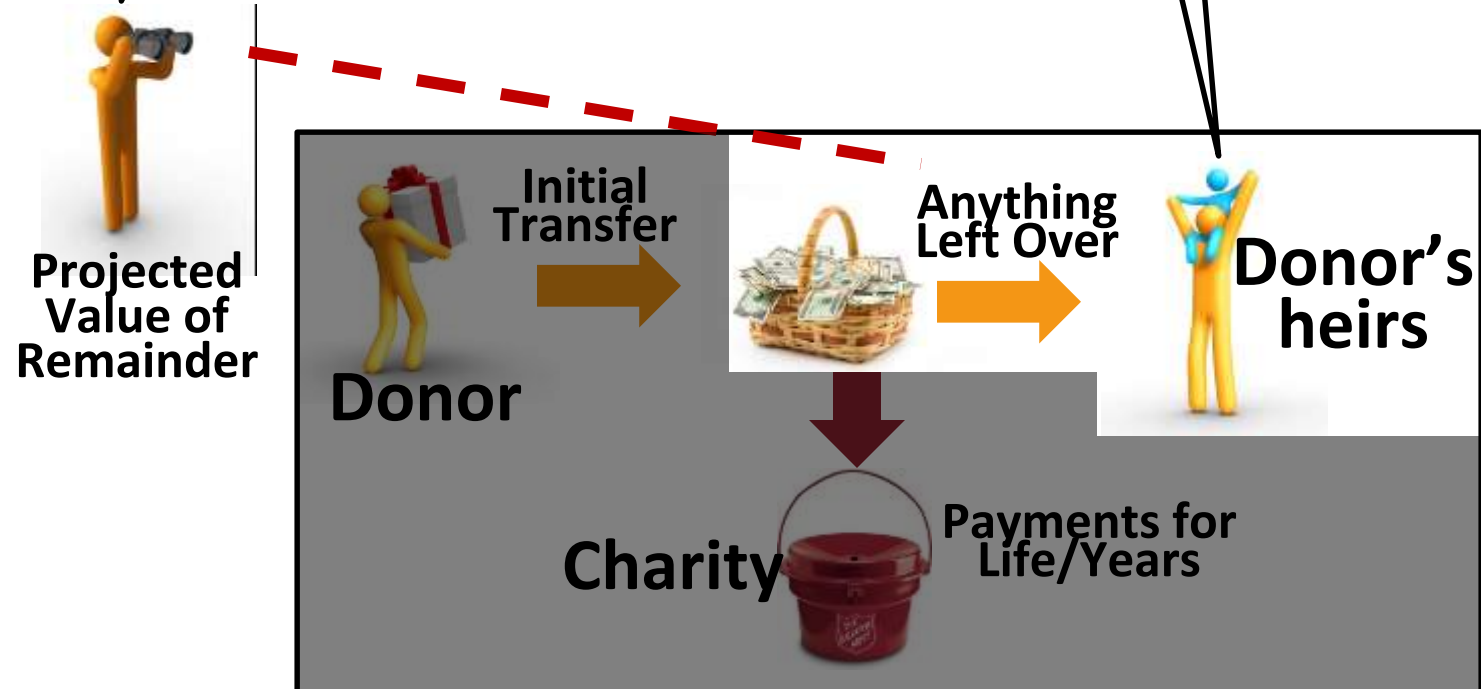
**Using non-grantor Charitable Lead
Trusts to cut gift and estate taxes**

Gift taxes are paid on the present value of the **PROJECTED** remainder going to the heirs

Gift taxes are not paid on the **ACTUAL** remainder that eventually goes to the heirs



If the **ACTUAL** amount
is higher than the
PROJECTED amount,
this part goes to heirs
tax free



The **PROJECTED** remainder assumes investment growth at the **INITIAL** \$7520 rate

If actual growth is greater than the \$7520 rate, the **ACTUAL** remainder will be greater than projected

Projected Value of Remainder



The **PROJECTED** remainder of \$10MM at 4% \$7520 with \$761,387/year charitable payments for 20 years is \$0, resulting in \$0 gift taxation

If actual growth is 10%, the **ACTUAL** remainder will be \$23,666,559

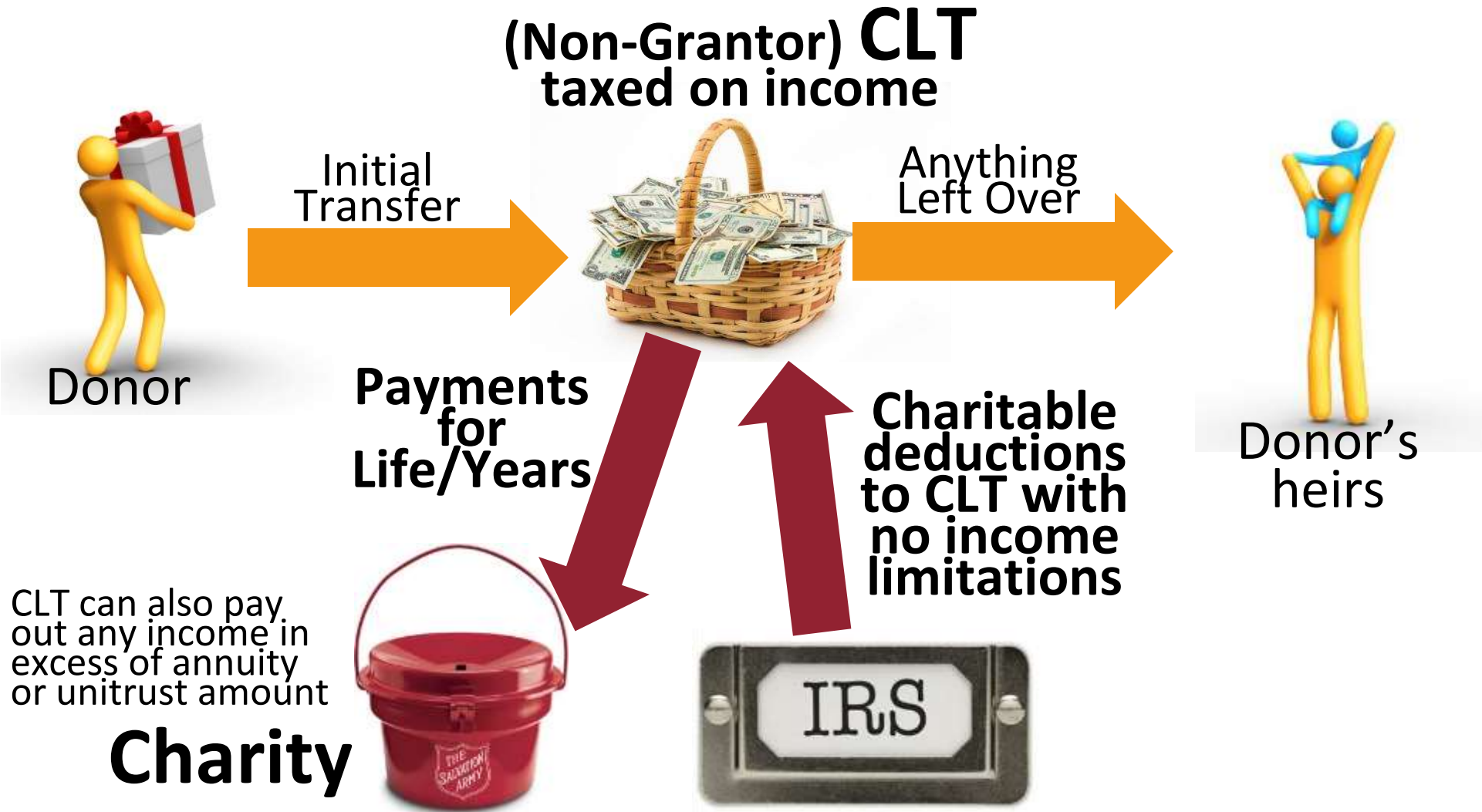
Projected Value of Remainder



If the
charitable gift
(or *bequest*)
was already
planned, the
zeroed-out
CLAT
(or *zeroed-out*
testamentary
CLAT)
provides a no
cost chance at
tax-free
transfers to
family

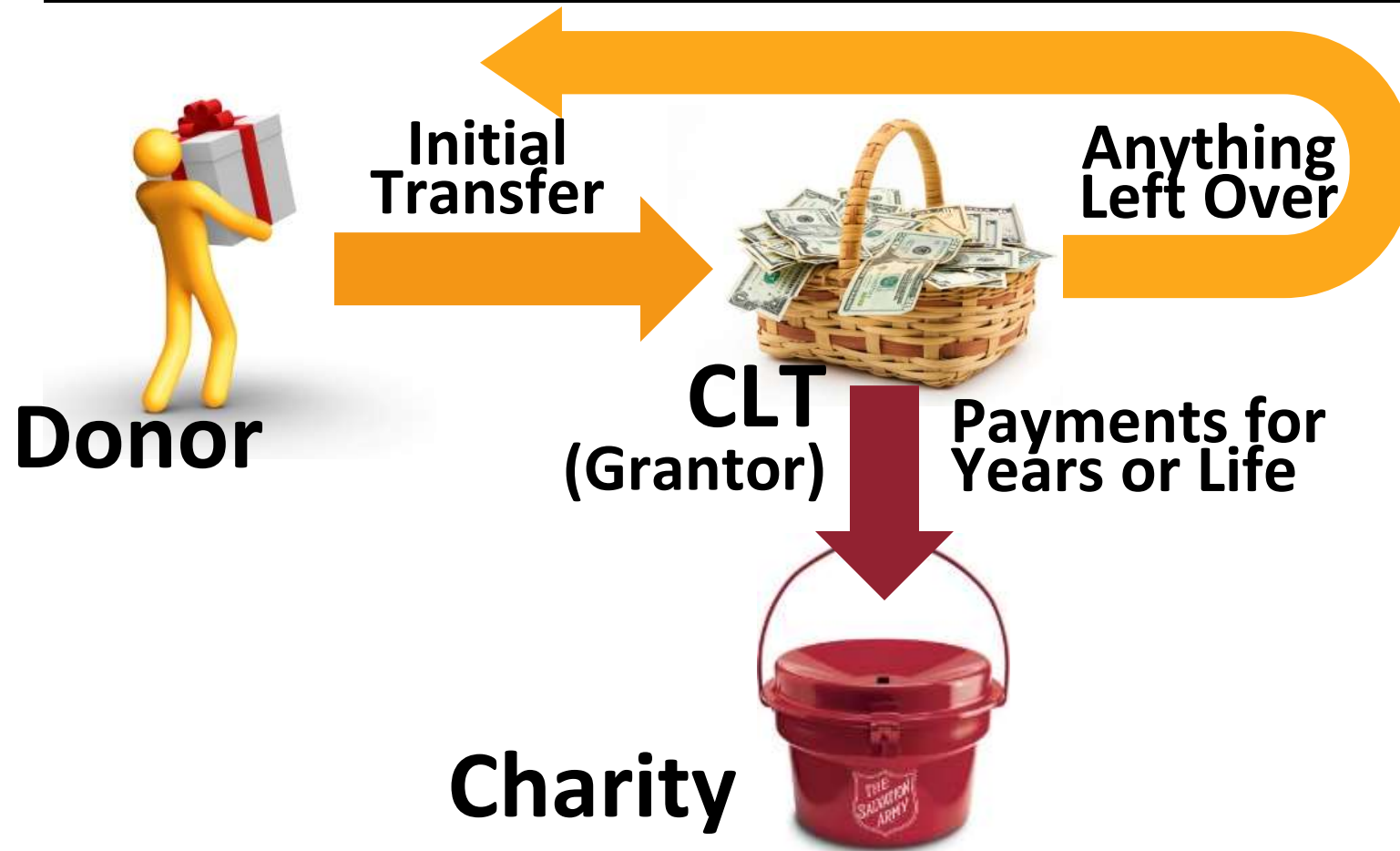


Non-Grantor CLT pays income taxes but deducts charitable distributions usually without income limitations



Grantor CLT

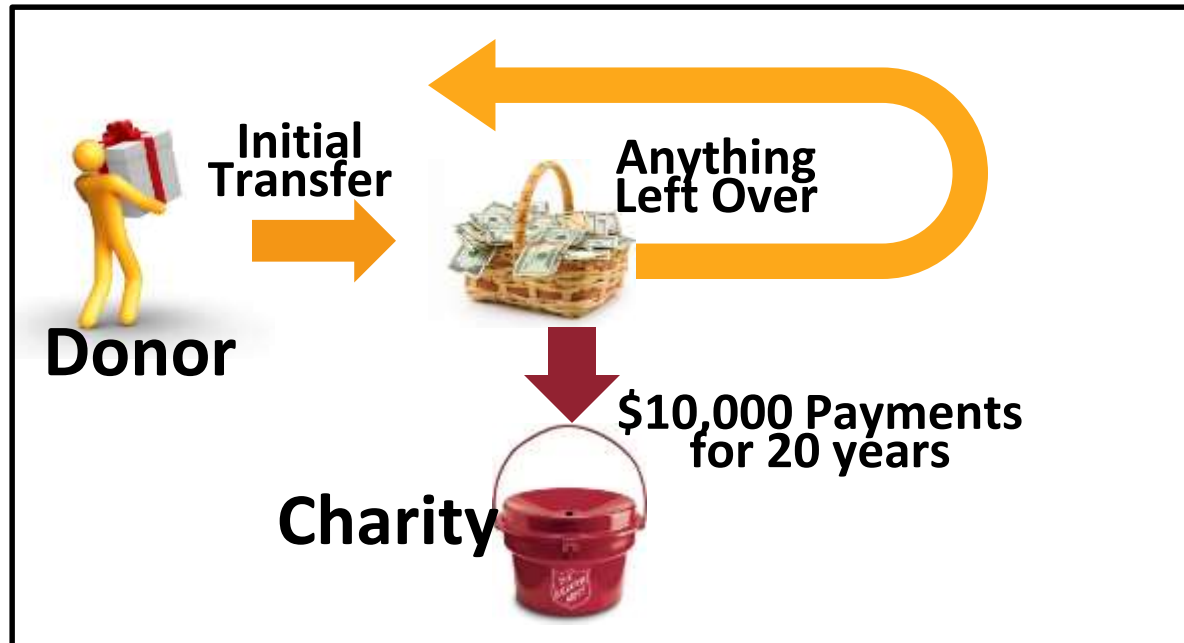
Donor immediately deducts present value of all future projected payments to charity



Funding \$10,000/year gifts through a 20-year grantor CLAT (returning remainder to donor) creates an immediate deduction

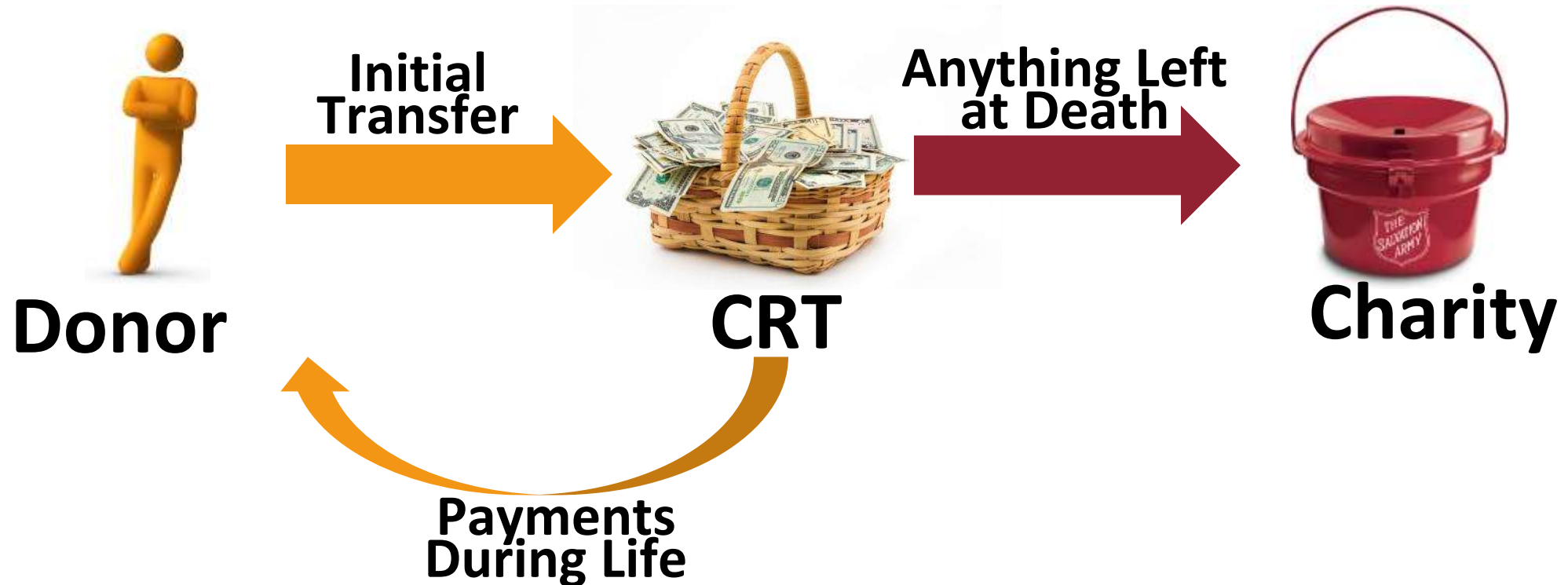
- **\$191,841 at 0.4%** §7520 rate
- **\$134,903 at 4%** §7520 rate
- **\$98,181 at 8%** §7520 rate

See iclat.net



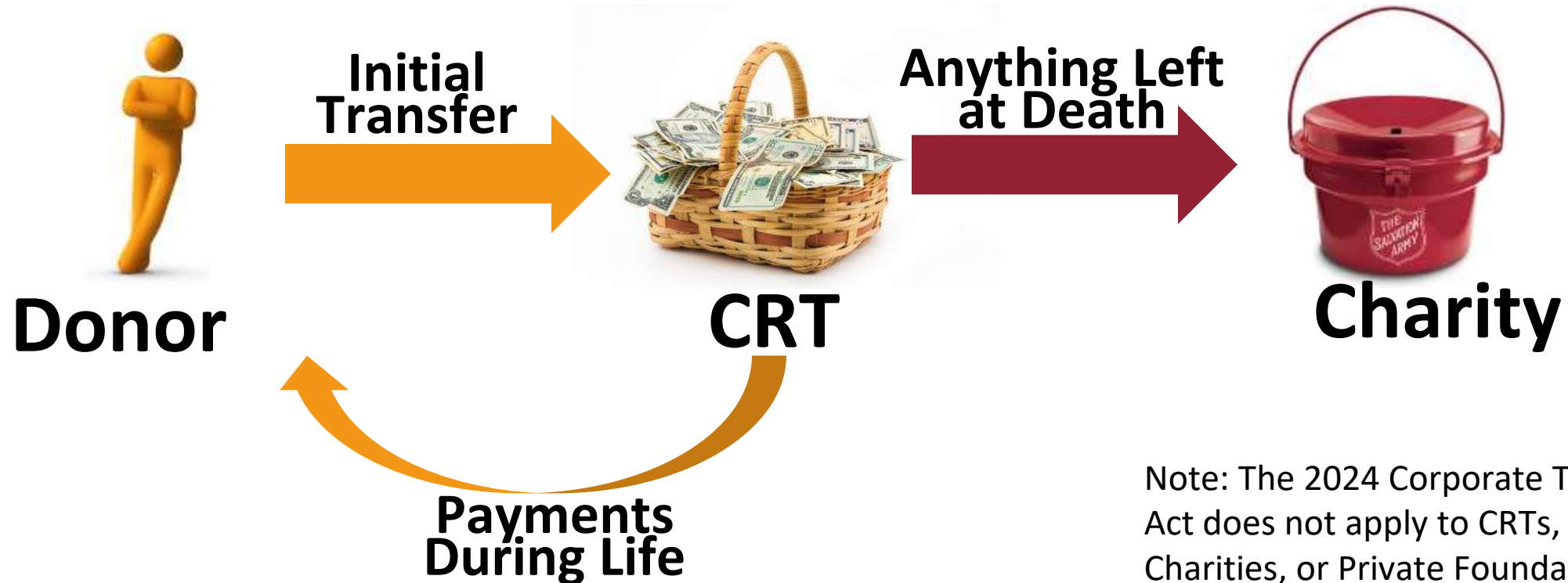
Charitable Remainder Trusts

- 1. Avoid capital gains tax*
- 2. Get a tax deduction*



Benefit of Charitable Remainder Trust

- Income with no upfront capital gains tax (less gain now)
- Tax deduction (CRUT no change, CRAT down)



CRAT disqualified if >5% chance of exhaustion due to annuitant longevity

STEP 1: Using §7520 rate, at what age will the CRAT exhaust?

Using a financial calculator solve for n (number of time periods) after entering present value (initial CRAT assets), rate (§7520 rate), payments, and setting future value to 0. The underlying formula is

$$n_{PVA} = \ln \left[\left(1 - \frac{PV(r)}{P} \right)^{-1} \right] \div \ln(1 + r)$$

n = number of periods
PV = Present Value (of Annuity)
r = rate
P = Payment/Cash Flows

STEP 2. Is there >5% chance the donor will live that long?

(lx@age-of-exhaustion / lx@current-age, using Table 2000CM at www.irs.gov/Retirement-Plans/Actuarial-Tables)

**Can draft around
with Rev Proc
2016-42. Pays out
when hits 10% PV**



Sale

\$1,000,000 asset
-\$238,000 capital gains 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
\$120,000

+ ILIT

Client pays \$120,000 initially and
\$10,000 annually for a \$400,000
ILIT-owned policy (including post-crummey gift
taxes)

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



Client uses \$40,000/year



**Charity receives \$1,000,000
remainder**

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



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

A CRT increases AUM

- ☐ No upfront capital gains tax at sale
- ☐ Tax deferred growth (only distributions taxed)
- ☐ Immediate tax deduction
- ☐ Post-mortem management with DAF/PF beneficiary



Retained Life Estate Deeds for Homes and Farmland



A remainder
interest gives the
right to own the
property after a
set time or after
the death of a
person

OK,
you can
have my
stuff now.

Charles A. Donor

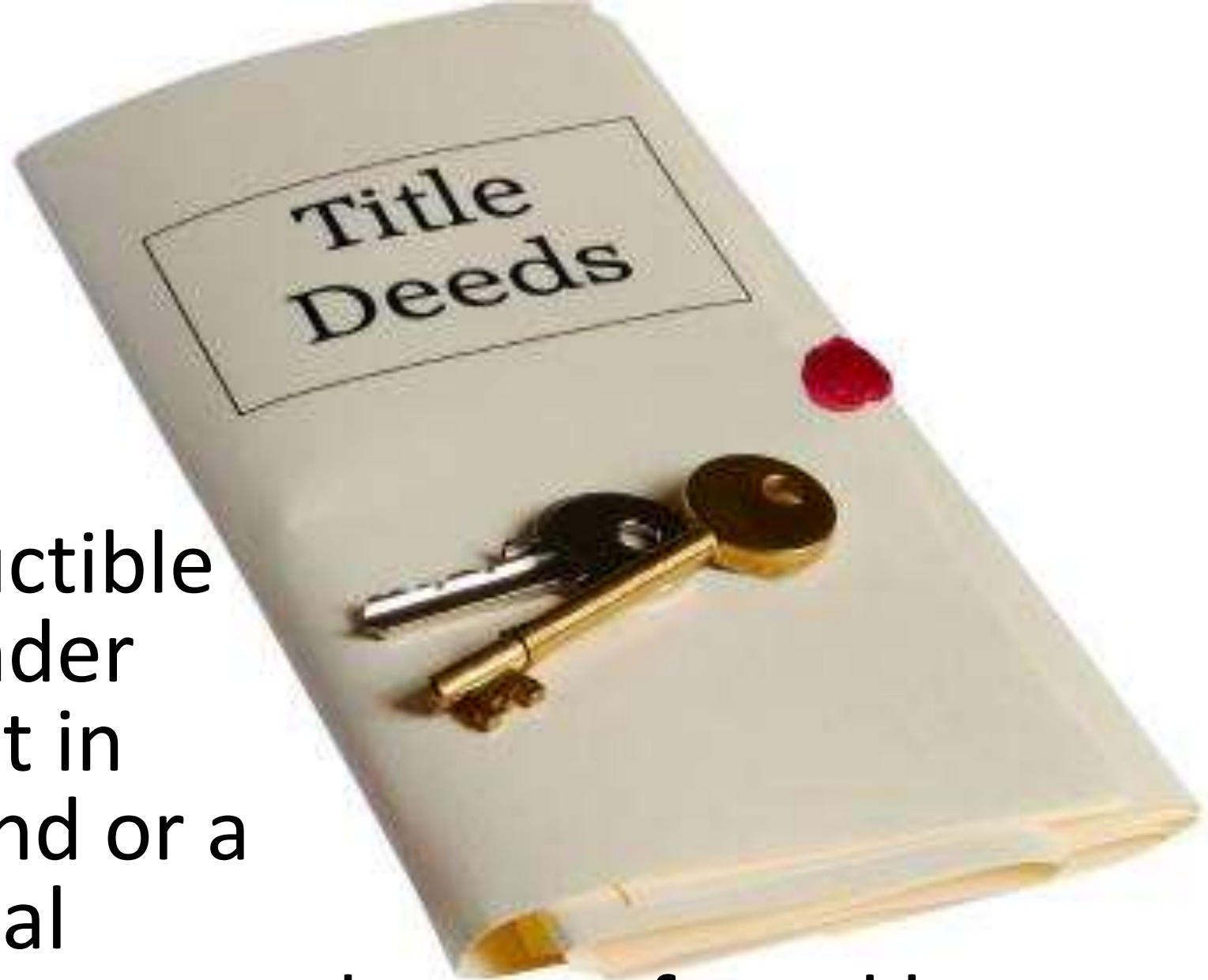




Remainder Interest

Unlike a will,
a remainder
interest is not
revocable,
and can even
be sold

A deductible
remainder
interest in
farmland or a
personal
residence must be transferred by
deed, not by trust or contract



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

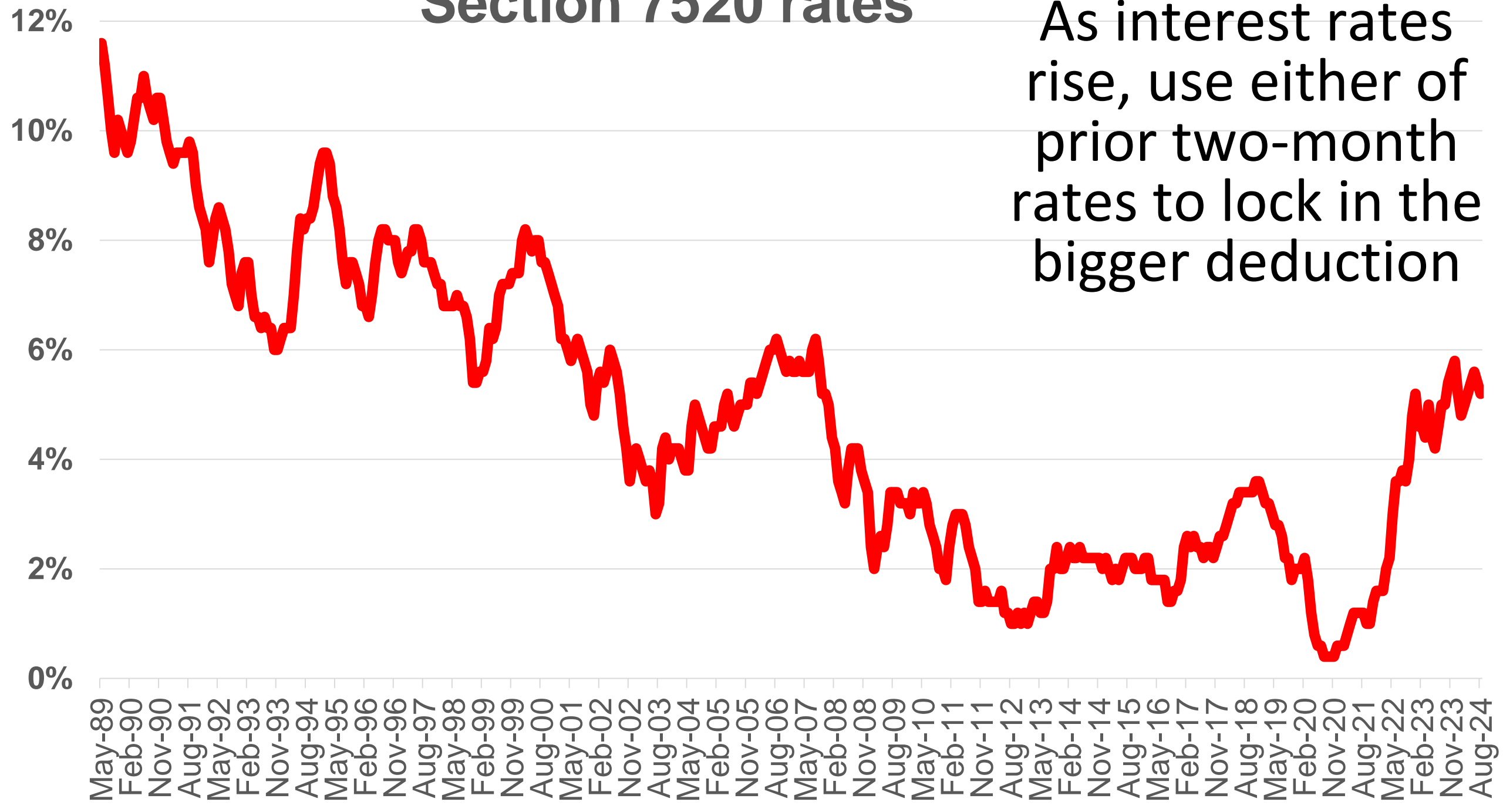
2% = \$616,350

3% = \$494,000

4% = \$401,310

Section 7520 rates

As interest rates rise, use either of prior two-month rates to lock in the bigger deduction



Leaving land to charity **by will**

- Revocable
- \$0 tax deduction
- Impacts charity after death




Leaving land to charity **by remainder deed**

- Irrevocable
- Immediate income tax deduction
- Impacts charity after death or immediately if charity sells remainder interest
- Immediately increases cash assets available for income producing investments



Remainder Interest

Gifts of a remainder interest with retained life estate in the donor's personal residences can also be deducted



**Includes second homes,
vacation homes, even a boat
with bathroom, cooking, and
sleeping facilities, if used by
the donor as a residence**



For some, the benefits from giving even cash went up in 2018



- 1. 2017 charitable tax deductions reduced by 3% of income over \$261,500 [Pease limitation].**
- 2. Higher state tax benefits with SALT caps**
- 3. Income limits raised to 60%**
- 4. Above the line small gift deductions in 2020, 2021, dropped in 2022**

For some, the benefits from giving even cash went up in 2018



1. 2017 charitable tax deductions reduced by 3% of income over \$200,000 [Pease limitation].
Ends after 2025
2. Higher estate tax benefits with SALT caps
Ends after 2025
3. Income limit raised to 60%
Ends after 2025
4. Above the line small gift deductions in 2020, 2021, dropped in 2022



Taxable

\$1MM in standard
IRA (withdraws
are taxable)

**Roth
Conversion**



Tax Free

\$1MM in Roth
IRA (withdraws
are tax free and
no owner RMD)

**Conversion creates
\$1MM in immediate
taxable income**

Accelerating a multi-year pledge by writing the check now or pre-funding future gifting with a DAF or creative planning creating current deduction for future transfers can fit with a Roth conversion.

Roth conversions and charitable planning can work together to match

Income



Deductions





**QBI deduction
ends after 2025**

1. The 20% deduction for business income phases out at higher *taxable income* levels
2. But charitable deductions reduce *taxable income*, and can thereby “bring back” the business income deduction from the dead
3. Double benefit: Charitable deduction + bringing back the phased out business income deduction



**Please connect with me
on LinkedIn for more
slides and videos!**

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Russell James, J.D., Ph.D., CFP®
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