

A Strategic & Tax Efficient Method for Annual Charitable Gifts During Uncertain Times

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A few months ago, Brad presented a program on gifting at my Daytona Beach Amateur Radio Association monthly meeting. Earlier this year, I wrote a brief article on donating to A/TA, Brad's presentation was excellent and provided additional insight. I asked if he would be willing to provide an article on giving and bequests. He generously provided the article that follows. I hope you will consider A/TA in your estate planning, but whether you do or do not, what follows will enable better planning.

Doug Lynch, A/TA Business Manager

Those who make charitable gifts on a recurring annual basis are, simply put, a very special group of people. To them, making gifts of \$5,000, \$7,000, \$10,000 or more on an annual basis is simply an extension of who they are as a human being. Making ongoing charitable gifts is a part of their DNA and they find great joy in supporting worthy and meaningful charitable causes. Unlike people who decide to bequest assets to charity upon their deaths, current annual donors often get to personally experience and see the benefits that their charitable gifts helped provide, whether in the form of scholarships, new buildings, medical research, church growth, food/housing for families in need – the list is endless. The same is certainly true for those of you who kindly make charitable gifts to The Airlift/Tanker Association and various other charitable organizations.

Rarely do the federal and state income tax savings generated by such annual charitable gifts serve as the driving motivating factor behind such gifts. However, the federal income tax savings (and income tax savings in most states) are significant and certainly serve as an important incentive for people to make charitable gifts. Income tax savings from charitable gifts has been a well-established tax policy of our country since the inception of the Internal Revenue Code back in 1913.

However, in recent years, and particularly as of January 1, 2018, changes and simplifications to the tax laws of our country have – for better or worse – made it more difficult for people to receive any income tax savings from their charitable gifts. This is largely because the “standard deduction,” which all taxpayers receive each year regardless of any charitable gifting, is now \$12,000 for a single person and \$24,000 for married persons who file jointly. These amounts are almost 100% greater than the 2017 standard deduction amounts. Alternatively, the charitable income tax deduction is one of the so-called “itemized” or “below the line” deductions. All taxpayers have a choice of either claiming the standard deduction or their itemized deductions in any given year. Simply stated, if you are married and you made \$8,000 in charitable gifts (and no other itemized deductions) then you would want to claim the \$24,000 standard deduction because it would likely save you between \$3,500 and \$4,500 in taxes that year (depending on your applicable marginal tax rate that year). This might not seem like a lot, but over 10 or 15 years these lost tax savings can add up significantly.

Additionally, because our country is facing a highly volatile current political environment and unprecedented levels of national debt, there is a realistic possibility that the charitable income tax deduction will no longer be allowed in the foreseeable future.

There are several solutions available to the large group of people who will be negatively impacted by this recent change in the tax laws and the future uncertainty surrounding the availability of the charitable income tax deduction. One such solution recommended by qualified professionals is to “bunch” 2, 3 or 4 years of your annual gifts in a single year to increase your “itemized” charitable deduction above the higher standard deduction amount. However, adopt-

ing this strategy will likely require you to make you do something that you were not otherwise planning to do. That is, give \$40,000, \$50,000, \$75,000 to \$100,000 to charity in a single lump sum. Importantly, this approach may not align with your financial plan or budget, nor may the recipient charity be capable of responsibly receiving such a large gift all at once.

What if there was another way to increase the amount of your charitable income tax deduction in the current year – without altering the amounts of your typical and anticipated future annual gifts to your favorite charities? There is such a way.

For over 40 years, our federal tax laws have authorized a specific type of giving tool that generates a large “accelerated” charitable income tax deduction in the current year, which is based on the recurring annual gifts to charity made over a designated number of years. In the vast majority of situations, the “accelerated” charitable deduction in the current year amounts to 85% and 90% of the sum of all the designated charitable payments! The reason the amount of the accelerated charitable deduction is so large is that the tax laws and the IRS regulations utilize a basic “present value” approach and the applicable interest rate remains at historically low levels.

The technical name of this giving tool is a “reversionary charitable lead annuity trust that is designed to be a grantor trust for federal income tax purposes.” For brevity sake, it is also commonly referred to as an “iCLAT.” The following simple example will help illustrate the accelerated income tax savings from this powerful giving tool—*Example:* Phil and Mary, who are married and both 55 years old, regularly make annual gifts to their local church, United Way and The Airlift/Tanker Association, which total \$10,000 per year. They realistically expect to continue this level of giving at least for the next 15 years. If they establish an iCLAT that distributes \$10,000 per year to charity for the next 15 years, then they will receive an accelerated charitable deduction of \$115,998. Said another way, a “current” \$115,998 deduction is permitted by the IRS based on the iCLAT’s commitment to make a \$10,000 gift in each of the next 15 years. Based on an effective tax rate of 30%, this accelerated charitable deduction will generate over \$34,700 of U.S. income tax savings. Alternatively, if Phil and Mary just continue to make their annual \$10,000 gifts out of their personal accounts, then they will not receive any tax savings from their annual gifting. Think about it, if the same charitable gifts are made through their iCLAT, then they will receive \$34,700 of accelerated tax savings, even though they are making the \$10,000 gifts annually over a period of 15 years.

Also, if Phil & Mary, live in California or one of the 33 other states that have an income tax and a charitable deduction at the state level, then they will receive significant state income tax savings as well. In California, this iCLAT example would generate an additional \$4,511 of state income taxes for Phil and Mary.

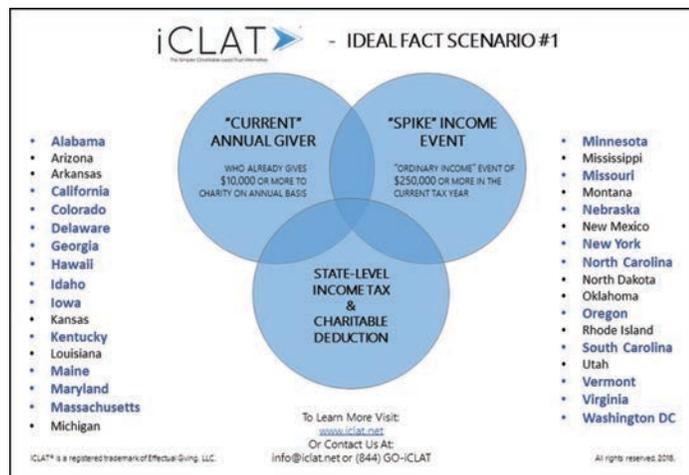
It is important to understand that an iCLAT can produce the greatest tax savings for two categories of annual givers:

“What if there was another way to increase the amount of your charitable income tax deduction in the current year – without altering the amounts of your typical and anticipated future annual gifts to your favorite charities? There is such a way.”

Category 1: Those annual givers who also happen to experience a “spike income event” of at least \$250,000 in the current year (or next calendar year) from a large bonus, IRA/401k/Retirement Plan distribution, ROTH IRA/401k conversion, stock options, sale of business, large commissions or contingency fees, or any other income events.

Category 2: Those annual givers who are high-income individuals such as executives, doctors, attorneys, veterinarians, accountants, engineers, professional athletes, architects or other professionals who plan to retire in the next 2 or 3 years and thereafter will have significantly lower levels of taxable income.

Remember, as noted above, the tax savings will always be greater for any person who fits into Category 1 or Category 2 AND who also happens to be resident in one of the 34 states that has an income tax and charitable deduction at the state level. A full list of those 34 states is provided in the following diagram:



From the recipient charity’s perspective, the iCLAT is a compelling way to further incentivize a current or prospective annual donor to make annual “pledge-like” annual gifts to your charity’s current funding needs, programs or active capital campaigns.

It is important to understand that there are several different forms of charitable lead trusts. Historically, the vast majority of charitable lead trusts created over the past 40 years were primarily designed for the purpose of reducing future estate taxes (otherwise known as the “death tax”). Therefore, if you decide to independently research charitable lead trusts on the internet or you happen to discuss the idea with your accountant, attorney or financial planner then you need to understand that you’ll likely get information that only pertains to the traditional and more complex form of charitable lead trust – and not to an iCLAT. Moreover, in the current \$11.4 million estate tax exemption (per spouse) environment, very few families need to consider implementing the traditional and more complicated form of charitable lead trust. Remember, the iCLAT’s sole focus is generate accelerated income tax savings, it has nothing to do with attempting to save future estate tax savings purposes.

During these uncertain times and with sweeping new tax laws that went into effect on January 1, 2018, the iCLAT is a compelling strategy to consider by those who currently give on a recurring basis (or plan to do so in the near future) and want to receive the tax savings from their charitable gifts. If not, then they may be unpleasantly surprised come April 15th when they learn that they can longer receive the significant tax savings that their recurring generosity so consistently provided in the past.

If you would like to learn more about the iCLAT then please visit www.iclat.net or simply email Mr. Gornto at info@iclat.net or call his office at (386) 944-9641.

- 1 iCLAT® is a registered trademark of Effectual Giving, LLC
- 2 Based on the September 2018 IRS interest rate of 3.4%.
- 3 The charitable deduction is subject to the 30% AGI limitation. ■

Book Review

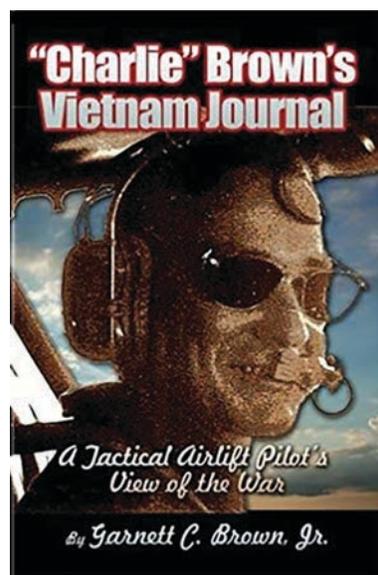
by Capt Murdock Moore, USAF Ret

“CHARLIE” BROWN’S VIETNAM JOURNAL

A Tactical Airlift Pilot’s View Of The War

Garnett C. Brown Jr., 2006, Publish America

To the C-123 PROVIDER pilots of the Vietnam War theirs was not the war of the sleek mustached fighter jock or stratoed bomber/tanker home-by-six crew. Those guys could enter a cloud with reasonable



expectations of a mountain not being in it. Not so the crew members of the Fairchild PROVIDER. Their C-123 began as an expendable troop glider (Chase XCG-20). Why put a navigator’s station or radar in a glider, those precious commodities were saved for the elites flying the C-130 “Klong Airways” flights. But for Lt. Col. Garnett “Charlie” Brown, formally a staff desk bound C-124 pilot, you take your airlift war where you can find it.

While flying C-123s in Viet Nam Brown kept a combat airlifter’s journal. A journal where the future

was mostly completing tomorrow’s mission or the end of week Management Effectiveness Inspection (Yes, they did it in a combat zone back then too). A few of his observations are listed:

- The C-123 (“Wallowing Whale”) was not looked kindly upon by the senior air staffers (“Not a gentleman’s aircraft”), but it could and did deliver to those pin prick Special Forces outposts pallets of bullets, beans, bread, and bladdered black oil. Outposts, mostly under siege, where a fresh meat requirement often meant dropping a caged water buffalo. Places where your Air Guide would say, “You go up river to the third bridge then turn left.”

- If it was a high country delivery you sweated out the peaks while you sucked bottled oxygen (Why put an oxygen system in a glider?). Low country hot and humid work? An air-conditioned glider! You wish. You provided your own by sticking a flight-suited pant leg out a cockpit window. Sweating out flying Army General William Westmoreland? No sweat - literally. His VC-123 had an air-conditioning unit installed. It also bore a sun reflecting white paint scheme (begetting - “The White Whale”). Wearing white to a jungle war? The detached, surrealistic world of “Saigon Warriors.”

- What is most interesting about the unedited journal is you know beforehand the play’s ending, but not the ending of the players. Casual acquaintances will fly off on casual missions, then become never-to-return casualties. A supreme sacrifice dampened when a safety board finds a flying mistake was made.

Thankfully only at the conclusion does the author provide hindsight (and limited at that). Still the most telling entry, “December 25th, 1970 - How I pray my son has happy memories to turn to, should he find himself grown up and in a world at war.” Reviewer’s note: An eye problem kept his son out of an airlift cockpit on December 25th, 1990. A thousand airlifters however carried on supporting, again, a world at war. ■