Charitable Trends and Tax Strategies for Year-end Planning

An educational webinar to prepare you for 2016 year end and beyond
Presenters

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Fidelity Charitable®

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Regional Vice President
Fidelity Charitable®

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Fidelity Charitable®
Today’s Topics

1. Charitable giving overview and trends
2. Charitable vehicles and the tax advantages of each
3. Thinking beyond cash for greater tax savings
4. Charitable solutions for year-end tax situations
5. Considerations for 2016 charitable giving
Charitable Giving Overview and Trends
Charitable landscape

Charitable Vehicles and the Tax Advantages of Each
### Giving vehicle comparison

<table>
<thead>
<tr>
<th></th>
<th>Donor Advised Fund (DAF)²</th>
<th>Private Foundations</th>
<th>Charitable Lead and Remainder Trusts</th>
<th>Check, Cash or Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tax deduction</strong></td>
<td>Fair market value</td>
<td>Cost basis</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td><strong>Organizations you can support</strong></td>
<td>IRS-qualified public charities</td>
<td>Many organizations and individuals, as long as the grant is made for a charitable purpose</td>
<td>IRS-qualified public charities and generally, private foundations</td>
<td>Public charities, private foundations and individuals</td>
</tr>
<tr>
<td><strong>Growth potential</strong></td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>×</td>
</tr>
<tr>
<td><strong>Donations of non-cash items</strong></td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>×</td>
</tr>
<tr>
<td><strong>Income tax deduction¹</strong></td>
<td>50% for cash</td>
<td>30% for cash</td>
<td>Depends on the type of charity supported by the trust and the type of trust</td>
<td>50%⁵</td>
</tr>
<tr>
<td></td>
<td>30% for appreciated assets³</td>
<td>20% for appreciated assets⁴</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Tax on investment income</strong></td>
<td>None</td>
<td>1% or 2% of net investment income</td>
<td>Depends on the nature of the trust</td>
<td>NA</td>
</tr>
</tbody>
</table>

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1. Percentage of adjusted gross income
2. At a 501(c)(3) charity
3. Appreciated assets held over a year are generally deductible at fair market value—applies to both publicly and non-publicly traded assets.
4. Appreciated, publicly traded assets held for over a year are generally deductible at fair market value, while non-publicly traded assets are generally deductible only at basis.
5. When donating to a public charity. 30% when donating to a private foundation.
Donor-advised fund (DAF)

**WHAT IS IT?** A program sponsored by a public charity that allows an individual to make an irrevocable charitable contribution, take advantage of an immediate tax benefit, and then recommend grants from the DAF over time.

**WHO’S A GOOD CANDIDATE?** Individuals who want a turn-key solution to combine with low cost, potential tax-free growth, and the flexibility to support their favorite charities over time.
Private foundation

**WHAT IS IT?** A separate tax-exempt entity established as a nonprofit, typically through a substantial initial gift, and must be organized and operated exclusively for charitable purposes. A board is usually named to manage the property and distribute the assets over time to charities.

**WHO’S A GOOD CANDIDATE?** Typically, high-net worth individuals interested in operating an organization to actively manage investments, accounting, and grant making, as well as sponsor charitable events. Will often hire staff to support the operations of a private foundation.
Charitable remainder trust

**WHAT IS IT?** An irrevocable trust that generates a potential income stream for individuals or their beneficiaries, with the remainder of the trust assets going to one or more charities.

**WHO’S A GOOD CANDIDATE?** Individuals who want an immediate charitable deduction but also have a need for an income stream to themselves or another person. Also a good option for donors who want to provide for their heirs, with the remainder going to charities of their choosing.
Charitable lead trust

**WHAT IS IT?** An irrevocable trust that generates a potential income stream for the charity (the lead beneficiary) selected by an individual, with family members or other beneficiaries serving as the remainder beneficiary of the trust's assets.

**HOW does it work?**

1. **Individual** makes a contribution to the **Charitable Lead Trust**.
2. **Income stream** goes to the charity.
3. **Remainder** goes to individual/family.

**WHO'S A GOOD CANDIDATE?** Individuals with sophisticated tax planning needs who want to support charities and transfer assets to their heirs.
Thinking Beyond Cash for Greater Tax Savings
Smarter ways to give: Assets to fund philanthropy

Benefits of donating long-term appreciated assets or complex assets:

- Generally entitled to the full fair market tax deduction at the time of gift*
- Reduce or eliminate capital gains tax
- Give more by donating directly rather than liquidating or before there is a prearrangement to sell

*For contributions of complex or non-publicly traded assets generally fair market value is determined by a qualified appraiser in compliance with IRS
Donating appreciated securities to reduce taxes

Capital gains taxes are potentially eliminated when long-term appreciated assets are given directly to a charity, like Fidelity Charitable, instead of selling the assets and donating the after-tax proceeds.

<table>
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<tr>
<th>Donate stock</th>
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</thead>
<tbody>
<tr>
<td>Value of stock when purchased</td>
</tr>
<tr>
<td>Current price</td>
</tr>
<tr>
<td>Taxable capital gain</td>
</tr>
<tr>
<td>Capital gains and Medicare surtax paid* (23.8%)</td>
</tr>
<tr>
<td>Total contribution to charity (after deducting capital gains surtax)</td>
</tr>
<tr>
<td>Tax liability without charitable contribution</td>
</tr>
<tr>
<td>Income tax savings by making contribution</td>
</tr>
<tr>
<td><strong>Double the tax savings</strong></td>
</tr>
</tbody>
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<table>
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<th>Donate cash</th>
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<td>Income tax savings by making contribution</td>
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This is a hypothetical example for illustrative purposes only. The chart assumes that the donor is in the 39.6% federal income bracket with an adjusted gross income (AGI) of $500,000. State and local taxes, the federal alternative minimum-tax, and limitations to itemized deductions applicable to taxpayers in higher-income brackets are not taken into account. Please consult your tax advisor regarding your specific legal and tax situation. Information herein is not legal or tax advice. *Assumes all realized gains are subject to the maximum federal long-term capital gain tax rate of 20% and the Medicare surtax of 3.8%. Does not take into account state or local taxes, if any.
A qualified charitable distribution (QCD) from an IRA

Good for IRA participants aged 70.5 who must take a minimum required distribution and want to minimize taxable gross income

Benefits

- Reduces gross income, and therefore income taxes
- Immediate gift to charity
- Some flexibility over gift designation
- Relatively easy to set up

Drawbacks

- IRA participant is not entitled to a charitable deduction
- Applies only to IRAs and not other retirement plans
- Gift cannot fund other charitable vehicles, including donor-advised funds, private foundations, and supporting organizations
- Usually not as good as donating low-basis stock or other appreciated investments instead
Charitable Solutions for Year-End Tax Situations
Charitable solutions help solve a number of tax situations

4 tax Strategies where a charitable solution is ideal

1. Income Tax
2. Capital Gains Tax
3. Carry Forward
4. Estate Tax
Federal taxes

In effect in 2016 for high-income earners

Top ordinary income tax rate: 39.6%

Top long-term capital gains tax rate: 20%

Medicare surtax of 3.8% on net investment income over certain thresholds*

Pease limitation reduces some itemized deductions for higher-income taxpayers**

*Applies to portion of net investment income that exceeds AGI of $200,000 (if single) or $250,000 (if married, filing jointly).

**Reduces itemized deductions by the lesser of 3% of AGI over $248,520 or $309,900 for couples or 80% of the itemized deductions subject to Pease. The PEP and Pease limit in 2016 is $259,400 for single and $311,300 for married.
Charitable tax incentives: income tax

Deduction limits as a percentage of Adjusted Gross Income (AGI):

- **Cash**
  - 50% to public charities or private operating foundations
  - 30% to private foundations

- **Long-term appreciated property**
  - 30% to public charities or private operating foundations
  - 20% to private foundations
Charitable tax incentives: minimizing capital gains tax

**Short term** (owned for a year or less):
- Taxed at ordinary rates
- Additional 3.8% Medicare surtax in some cases

**Long-term/appreciated property**
- Taxed at 15% for most, 20% for those in the highest income bracket
- Additional 3.8% Medicare surtax in some cases

Eliminated when appreciated assets are contributed in-kind to qualified charities, rather than sold
Carry forward

Donors experiencing a high income year, perhaps the result of a bonus, inheritance, or selling a business, could consider a 3 to 5 year approach to charitable deductions.

The deductibility limits are 50% of AGI for cash and 30% for long-term appreciated securities, but when giving to a public charity you can carry forward any unused charitable deductions for up to five additional years.
Pease limitation

Pease reduces the value of most itemized deductions once a taxpayer’s adjusted gross income reaches a certain amount.

For those impacted, Pease reduces itemized deductions by 3% of the amount by which the taxpayer’s AGI exceeds the income threshold, taking a “haircut” off all itemized deductions, though not to exceed 80% of itemized deductions.

<table>
<thead>
<tr>
<th>Impact of Pease: Marginal Tax Rate Increase</th>
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</thead>
<tbody>
<tr>
<td>Tax Bracket</td>
</tr>
<tr>
<td>Pease Surtax</td>
</tr>
</tbody>
</table>

Source: Michael Kitces, www.kitces.com
Charitable tax incentives: estate tax

Estate Taxes

- Federal estate tax exemption raised to $5.45 million\(^1\)
- Highest taxable rate is 40%\(^2\)
- Unlimited deduction for charitable contributions

Charitable gifts made during a donor’s lifetime removes the assets from (and any future appreciation related to) the donor’s estate

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\(^1\)Adjusted annually for inflation
\(^2\)2016 tax rate
Take advantage of tax incentives

Identify untapped assets to help you potentially minimize tax implications and maximize your charitable impact.

- Re-balancing Portfolio
- Eliminate/Offset Capital Gains
- High Income Year
- Business Exit / Retirement Planning
- Own Non-publicly Traded Assets
- Using Another Charitable Vehicle
Considerations for 2016 Charitable Giving
An increased possibility of tax reform means you may want to take a second look at 2016 giving plans.

<table>
<thead>
<tr>
<th></th>
<th>Current Tax Plan</th>
<th>Proposed Tax Plan*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Federal Income tax rate</strong></td>
<td>39.6%</td>
<td>33%</td>
</tr>
<tr>
<td><strong>Capital Gains tax rate</strong></td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td><strong>Estate tax</strong></td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td><strong>Standardized deductions (individual/joint)</strong></td>
<td>$6,300/$12,600</td>
<td>$15,000/$30,000</td>
</tr>
<tr>
<td><strong>Itemized deductions</strong></td>
<td>Up to 50% AGI</td>
<td>Capped at $200,000</td>
</tr>
</tbody>
</table>

Please note that Fidelity Charitable does not provide legal or tax advice.

*Based on President-elect Donald Trump’s Economic Policy Package, September 2016
Established in 1991, Fidelity Charitable® is an independent public charity that sponsors the nation’s largest donor-advised fund program. Our mission is to advance philanthropy by providing programs that make giving simple, effective, and accessible.

OVER $16.2 BILLION
Total number of assets

OVER 84,000
Number of Giving Accounts

NEARLY 230,000
Nonprofit organizations receiving donor-recommended grants from Fidelity Charitable over the past 24 years

OVER $4.2 BILLION
Amount above and beyond donor contributions available for charitable purposes due to Fidelity Charitable investment programs

OVER $24.1 BILLION
Granted to nonprofit organizations

1 From Fidelity Charitable inception in 1991 through September 30, 2016.
2 Based on cumulative contributions since inception, minus cumulative grants since inception, subtracted from current assets as of September 30, 2016.
3 Total assets as of September 30, 2016.
Resources

Visit a Fidelity Investments investor center

Reach out to us: 800.262.6039

Visit our website:

fidelitycharitable.org
Q & A
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