

TRANSCRIPT

Tax-smart charitable strategies

Tim Shumway: Welcome to today's webcast on "Tax-Smart Charitable Strategies".

My name is Tim Shumway and we really appreciate that you choose to spend some time to join our discussion centered around strategic giving. Helping our clients be more strategic with our charitable giving is really always a popular topic but in my opinion getting it right may be even more important for a couple reasons. One, we're in the midst of a historic bull market, which means that there are excessive amounts of capital gains built up in non-qualified portfolios. Two, we're also well into the second year post-tax reform, which means that once again, millions of Americans will not be able to get a tax benefit from their charitable contributions unless they plan ahead.

Now, before I introduce my two colleagues, though, let me share just a little background about myself. As I mentioned, my name's Tim Shumway. I've been with Fidelity for 28 years, and for the last five years I've been a Regional Vice President for Fidelity Charitable. Fidelity Charitable is an independent public charity and I'm based in Salt Lake City but today I'm joining you from Covington, Kentucky. And my role is to be a charitable expert with the goal to educate financial advisors so they can provide their clients and donors with strategies to help them give and save more.

All right. Joining me today on our webcast is Brandon O'Neill and Natasha O'Yang. Brandon joins us from Dallas, Texas. He's been with Fidelity for 11 years and is a Fidelity -- helps financial advisors, CPAs, and attorneys deliver intelligent charitable strategies to their clients. Also joining is Natasha O'Yang. Natasha recently joined the Fidelity Charitable team and is joining us today from San Francisco. She's no stranger to Fidelity Investments: she spent the past four years providing in-depth financial plans for a select group of high net worth clients. She's also focused on educating and upscaling financial advisors on the benefits of incorporating charitable planning into their practice. Both of our speakers today are experts on charitable giving and, more specifically, how a donor advice fund through Fidelity Charitable can help you maximize your charitable dollars.

Now, before we take a look at our agenda, allow me to set the table for us. You may be surprised to learn that 91 percent of high net worth Americans give to charity every year. That's really great news. But the not-so-great news is that Americans actually put very little thought and consideration into how they give. This is evidenced by the fact that most public charities like Fidelity Charitable receives about 70 percent of their annual contributions in the last two months of the year, and secondly, more than 80 percent of those

contributions are in the form of cash. So let that sink in for a minute. 70 percent of charitable contributions arrive in November and December and more than 80 percent is cash. Now it's no secret that charities love and need cash. However, we've found that in almost every single case cash is the least efficient asset for you to donate. I remember my dad saying, "Tim, there's never a wrong time to make the right decision". So I wonder, that if we're not giving the right asset at the right time we may be shortchanging ourselves and the charities that we're most passionate about supporting. So today our goal is to help make your charitable giving more simple, assessable, and effective. So as we discuss how to contribute the right asset at the right time, it's our hope that by the end of our time together you'll better understand the difference between charitable giving and charitable planning with Fidelity.

All right. Here's some of the high level topics we'll be covering today: first, we'll discuss the charitable landscape and talk about some of the different giving vehicles individuals are utilizing; next, we'll talk about the different assets you're able to give to charity for greater tax savings; and then lastly we're going to touch on tax strategies for year-end giving, including one idea to help you potential exceed the recent increase in standard deduction levels.

All right. Brandon, let's start with you. At a really high level would you just tell

us a little bit about the charitable landscape and would you talk about 2018 and any trends we saw in the U.S.?

Brandon O'Neill: Yeah, happy to, Tim. So one of the things I'd like to say is I think philanthropy is a uniquely American trait. I think everyone on this call can recognize that there are natural imbalances that exists in the world, and it's my closely held belief that philanthropy's job, its mission, is to really push those scales of a balance that naturally exists and to push them into a more favorable light. And the great news is, Americans, we support those organizations to a very high degree, and so every year, there's a fantastic report put together by Indiana University, Lilly School of Philanthropy, and that's where we pulled some of these numbers. And what this chart is really showing is charitable gifting in the United States over the last four decades. So we can all feel a sense of pride when we look at this chart and see how there's been continued trend and increase in charitable giving. So just to clarify this chart, the blue bars are philanthropic dollars during years of economic expansion or growth and the green bars are gifting during years of economic recession or contraction. So one of the common questions that I get when I work with our donors or advisors is I get a lot of questions around what happens during a recessionary period to giving. So if we think back 11 years to 2008 when the S&P 500 was down, right around about 37 percent, charitable gifting was

around during that same time frame, but not to the level that most people would think. It was only down around about three percent from the previous year. So regardless of where we're at in any kind of economic cycle people still want to support those organizations regardless of market performance.

The other thing I'd highlight in this chart is in the top right hand corner. You're going to see a number. It's 427.7. That's actually 427 billion dollars that was gifted to philanthropy in 2018. So to put that in its proper context, Tim, that's about two percent of the country's GDP that is effectively being transferred to philanthropy every year, or a little over a billion dollars a day, so Americans are giving at record levels to the organizations that they care about. So if we peel back that large number, the 427 billion dollars, and really take a deeper dive on who's actually responsible for the gifting that is actually done in this country, you'll see a donut chart on the right and you'll see the dark blue bar. That's 68 percent of all giving that is done in the United States is done by individuals. So the vast majority of charitable support is coming through individual donors. That's followed by organizations, bequests, which are at-death gifts, and then lastly corporations only make up about five percent of charitable gifting. What I'll note is that this numbers actually declined from the previous year so the high was around 71, 72 percent was driven by individuals, but right now that number has actually come down to about 68 percent.

Tim Shumway: Well, that's very interesting, Brandon. Do you have an idea what may have caused a slight decline in individual giving last year?

Brandon O'Neill: Yeah, I think two things spring to mind as a result. So this was the first year that we came out of some pretty comprehensive tax reform, so I think many Americans were still trying to figure out what their tax situation would be and how they might give might affect what their deductions might be post-tax reform. So that's one issue. The other would be is most Americans are probably waiting until the last quarter of the year to give, and last year if we think back between September and December, we saw some pretty significant volatility. So that might've pushed people to the sidelines where they typically might have given, or maybe given a little bit more, than what they gifted last year.

Tim Shumway: All right. Now, before we talk about how individuals are donating, let's talk about why. Brandon, you just mentioned tax reform. Can you give the audience an overview on how taxes are related to charitable giving, and what our listeners should consider when they're planning for their giving.

Brandon O'Neill: Absolutely, Tim. So one of the things I'm going to be doing is talking about tax incentives pretty extensively on this slide. But I don't want you to confuse this as the main reason why people support charity. I've been doing this job over six years and the main thing I've heard from our donors when it comes to supporting charity is that there's other reasons why people support. It's not primarily tax driven. I think people want to make a meaningful difference in the lives of others, or they want to pass their family in charitable values to the next generation. That being said, the IRS does provide some pretty substantial tax incentives to try and encourage philanthropy in this country. And it really comes down to two different types of incentives. One is an income tax deduction and the other is capital gains avoidance by gifting the right assets. So what your deduction, or what you're eligible to deduct in a given year, is dependent on a few things. One, what is the asset that you're giving to, and what type of charitable organization are you supporting? So if we look on the top left hand corner, you'll see where it says cash. So you can gift cash to a charity and deduct up to 60 percent of your adjusted gross income if you gift that cash to a public charity and/or a donor advised fund. And then if you gift to a private foundation -- Natasha's going to go into more detail on how these foundations work, but because you have more control with a private deduction you can only deduct up to 30 percent of your adjusted gross income for cash gifts.

Now other than cash you can gift long term appreciated securities and still deduct those gifts off of your income. So if you're gifting a long term appreciated security, this could come in the form of a stock, a bond, a mutual fund, exchange traded funds, things along those lines. If you gift those to a charity you can deduct up to 30 percent of your adjusted gross income for a public charity or a donor advised fund. And for private foundations that number drops down to 20 percent of your adjusted gross income. One thing I'll note is that if you exceed any of these AGI limitations, you can carry any unused deduction forward for up to five additional years. So if you're making a very large gift, don't have the concern that you can't use all of your deduction. It's not a "use it or lose it" provision. It actually allows you to carry that deduction forward to up to five additional years so you can use that going forward.

The other thing I'd look at is on the right hand column. You're going to see capital gains tax. So we're going to focus on the bottom right hand corner. If you gift a long-term appreciated security, and the IRS defines that as an asset that you've held longer than -- one year and a day. If you gift those assets to a charity you are no longer responsible for the capital gains taxes that are associated with that asset. So what that effectively means is you could get 15,

20, or for those who are subject to the Medicare surtax, you could be saving an additional 23.8 percent by making a gift of securities as opposed to cash. So you're getting two tax incentives instead of one, but really there are some great incentives that the IRS has to try and encourage charitable gifting in the United States.

Tim Shumway: OK. We've now heard a little bit about why individuals are giving to charity. Now let's talk about how individuals are giving to charity. There are many ways for individuals to give to charity and social media now has made it even easier to support charities at lightning speed. But if we consider our charitable giving as integral to our financial plan, then it's best to create goals for your giving and consider how much you intend to give annually. As Brandon discussed, there are tax incentives that you can take advantage of but it really depends on what, and how much, you're giving. As we've heard, most Americans resort to giving cash or writing a check to a nonprofit at the end of the year. And think about the last time you donated to charity. Did you reach out for your checkbook or even a credit card, and while giving by check is easy, was it the most efficient?

So as we look at this next slide, Natasha, we see that there are different types of charitable vehicles individuals are using to be more strategic and impactful with their giving. Can you walk us through the various giving vehicles?

Natasha O'Yang: Sure, Tim. There are a variety of vehicles individuals can use to accomplish their giving goals. While this slide doesn't show every available option, it gives you a good idea of the most popular vehicles. I think it's valuable to have a broad understanding of these vehicles so let's take a look at this slide and start from the right. We'll go into more detail on how donor advised funds work in a moment as we typically get a lot of questions around them due to their significant rise in popularity. So as Tim mentioned earlier, most Americans are resorting to giving cash or writing from their checkbooks. Checks, cash, or credit that is sent directly to a charity is by far the most popular giving vehicle by donors. However, it also tends to be the most inefficient way to give as well. Next we have charitable lead and charitable remainder trusts. These are a bit different than the other options listed as they're income-generating vehicles. They're also considered split interest giving vehicles because they allow you to make contributions to a trust to be eligible for a partial tax deduction based on the assets that will go to charity. When looking at charitable lead trusts specifically, they're essentially irrevocable trusts designed to provide financial support to designated charities

for a period of time and eventually will have the remaining assets passed onto their beneficiaries, like family. On the other hand, charitable remainder trusts are structured in the reverse. This type of irrevocable trust generates an income stream for the donor or other beneficiaries with the remaining assets ultimately going to designated charities. Donors tend to like both of these options, especially for estate or tax planning purposes.

Moving to the left, type of foundations are a separate tax entity established either as a nonprofit or a trust. They're usually funded by a single source such as a family or a corporation. Once funded, the foundation's investments and distributions are managed by its own trustees or directors. Donors like private foundations because they have a high level of control of their giving and the foundation can be tailored to satisfy particular charitable goals. On the downside, private foundations have to adhere to complex regulations, are costly to form and administer. They're also burdensome because you have to file a separate tax return for them annually. Typically private foundations are a good fit for individuals looking for a higher level of control through the operation of the organization and potentially hiring staff and investment managers as well. These types of donors may also like the fact that they can actively manage grant making and sponsor charitable events.

Lastly, let's take a look at one of the fastest-growing philanthropic vehicles with grant making increasing 20 percent nationally in 2017, donor advised funds. A donor advised fund is a program sponsored by public charity that allows donors to make an irrevocable charitable contribution to be immediately eligible for a tax benefit and then have the flexibility to recommend grants or distributions over time. This flexibility can give donors the ability to accelerate their giving and potentially maximize their tax deduction while still deciding the charities they want to support.

Tim Shumway: That's great information, Natasha, but for our audience something to keep in mind is we've definitely seen a trend over the past few years in individuals maximizing their taxes by actually using a combination of these vehicles. So say you have a foundation and you max out the income tax deduction limitation, you might consider leveraging a donor advised fund for the remainder amount. It's the same reason -- you know, as I think about it, that we have more than one golf club in our golf bag is that gives you the flexibility to approach your giving the same way. So Natasha: since donor advised funds have become far and away the most popular giving vehicle, would you tell us just a little bit more about them?

Natasha O'Yang: Absolutely, Tim. So on this slide I can go into detail how a donor advised fund works at Fidelity Charitable. Although I can't speak to all donor advised funds most funds work in a similar way, like our giving account. Donor advised funds are simplistic by design, so consider a donor advised fund in three parts: give, grow, and grant.

The first step, give, is when you make an irrevocable contribution to Fidelity Charitable. You'll then be eligible for an immediate tax benefit because Fidelity Charitable is an IRS designated 501(c)(3) public charity. You may also receive an additional tax benefit in this step by contributing a long term appreciated asset.

The second step, grow, is recommending how those assets are invested within the giving account. Here these assets are able to grow tax-free and can really increase the impact of your giving to the causes you care most, with the potential investment growth.

The third step, grant, is recommending to which 501(c)(3) public charity to distribute those assets to. This process can be easily initiated online. As a side note, grant making also does not necessarily have to end with the donor. Donors have the ability to leave a legacy of philanthropy by naming a

successor to manage the investments and grants upon their passing. Donors can also list a number of charities to distribute to upon their passing as well.

Overall, donor advised funds provide a simple solution that allows donors to provide the most favorable tax benefits with the flexibilities to support their favorite charities at any time. Tim, could you please move to the next slide so we can take a look at the type of assets donors are using to fund their account? Perfect, thank you.

So let's start again with our first step, give, when we're making our contribution. It's important to note that different charitable vehicles are able to accept a variety of assets in addition to cash. This includes appreciated securities that have been owned for more than a year, such as publicly traded stocks, bonds, mutual funds. Complex non-publicly traded assets such as private or restricted company stocks, real estate, bitcoin, and more. So what makes these assets so appealing in comparison to cash equivalents from a planning perspective is that you get the full fair market value tax deduction at the time of your gift. Additionally, giving these appreciated assets with unrealized long term capital gains directly to charity also means you're able to double down on tax saving and reduce or eliminate capital gains. Think about that. You're able to give as much as 23.8 percent more to the charities that

you love to support than if you sold those assets and then donated the proceeds.

Lastly, when thinking specifically about this audience, although donors can donate appreciated securities held at nearly any other firm, it is just that much easier when you're donating directly from a Fidelity brokerage account. This is because we have a tool that will integrate data from a donor's brokerage account that helps stack rank cost basis slots by their highest appreciation. This really takes the work out of trying to figure out which asset in a donor's overall portfolio is the most advantageous to give.

Tim Shumway: Thanks, Natasha. I'm curious to know more about the grow component of the DAF. I find that donors are first attracted to the donor advised fund since they can donate appreciated assets. But then they fall in love with the other benefits, especially the ability to grow the assets that they've recently donated tax-free inside the account. Can you talk through the investment options that Fidelity Charitable offers inside the giving account?

Natasha O'Yang: Sure, Tim. Let's look at this next slide. So at Fidelity Charitable, we have over 20 investment pool options that include both Fidelity and non-Fidelity funds, domestic and international funds, active and passive funds. So

our investment pools offer a variety of choices for our donors to match each of their unique philanthropic goals, preferred type of assets and risk tolerance. This really empowers our donors to be just as strategic in their giving account as they do with any other type of investment account. And additionally, again, with this tax-free growth, this really enables our clients to create a larger impact toward those causes that they care about and potentially give more by investing those assets within the giving account.

Tim Shumway: Very good, Natasha. Now Brandon, to close out this section, can you walk through what I think is the most important aspect of the giving account: actually making a grant recommendation.

Brandon O'Neill: Yeah, absolutely, Tim. So this is, like you said, my favorite part of the giving account is how we make it very easy for our donors to make grant recommendations to an organization that they care about. And there are really three types of organizations that we can support outside of the giving account. So making a grant to a qualified 501(c)(3) non-for-profit organization that's in good standing with the IRS, religious houses of worship, so that could be a church, a temple, a synagogue, a mosque, you could give out of the account to. And then the last category is what the IRS determines a government instrumentality. So this could be a school, a university, library, or

hospital. So we make it easy for donors to tell us which of those organizations that they want to support, and we really do this through three main themes. We try and make our grant making very efficient, flexible, and customizable.

So on the left, you'll see under the "efficient" section, our donors have the ability to make a grant online, they can call us over the phone, fax or mail it into us, but by far and away one of the fastest-growing ways that people are using to support those organizations is we have a new mobile app that basically turns your phone into a checkbook. It really allows you to give right there on the spot to the causes and organizations that you care about. The other thing that we do is every grant that goes out goes through a pretty extensive due diligence process. So our grants team will actually research the nonprofit so when you make a grant recommendation to a charity you don't have to have the concern of is this a qualified or an approved charity. We're going to do that work on the back end for every single grant that goes out to those organizations.

We also make it very flexible. So if a donor wants to make a grant to a specific cause for a particular use we can do that. So very commonly we see this for individuals who want to support or send money to their alma mater for a scholarship program, or if you want to do it for a particular fundraising initiative

that's going on at the nonprofit, for example, your church might be doing a renovation project with the chapel. What we'll do is put a specific use on the check to make sure that those funds are used in the intention that you've set aside. Also you can view all of your granting history online. This is a really neat way to see how much you've gifted to a certain organization or a certain subsector of philanthropy, so maybe it's a food programs to help with the -- food banks, you can actually see all of that in real time and track which charities you've gifted to. We also provide our donors access to a wide variety of information on those charities. We kind of do some diligence from that standpoint.

Lastly, we make it very customizable. So you can use your own grant recommendation schedule. So if you want a grant to go out on a monthly basis -- we see this very common for tithes to a religious organization. So you don't want to have to think about writing that check every single month. We also have the ability to make grant recommendations on behalf of someone -- one someone else's name. You also have the ability to put your name and address on the check so you can get those recognitions from the charity. Or for some of our donors they prefer the ability to give anonymously, so if they don't want to get future solicitations from those charities we make it very easy to basically get the funds out to the causes that people care about.

Tim Shumway: Excellent. Brandon, you may have mentioned this already, but with the ability to grant out to virtually any 501(c)(3) charity, one, is there anything donors can't designate their funds go towards, and then just a couple follow up questions: what's the minimum amount they can grant out and do you have to give it all away in the year that you contribute?

Brandon O'Neill: Yeah, it's a great question. So the first question you asked is are there any organizations that can't be supported or it can't be used. So one of the common things that we come across is people trying to make a grant for a legally binding unenforceable pledge. Now keep in mind most pledges to charities aren't legally binding. Pledges tend to be much larger gifts. So just pledges you can use but if there's any kind of legal binding nature to that it's basically like a debt obligation and we cannot be used to facilitate a grant for binding pledges. Another common issue that we get that we can't support are any time you're using a split gift. So what I mean by that is if you make a gift to a charity and it's not 100 percent tax deductible, you cannot use your giving account to satisfy that. So think about this: you get a 100 percent deduction on the way in. When we process the check out to a charity it has to be 100 percent tax deductible on the way out.

I think the other question that you asked had to do with granting minimums. So these are active grant making vehicles. We always encourage our donors to be giving out of their accounts pretty actively. That being said, our donors are very active, so if a donor puts 100 dollars in, typically 74 of those dollars are out of their account within a five year period in the hands of the charities doing the work they're wanting to do.

Tim Shumway: Good to know. Thank you Brandon. And while I know it's not on the slide, there's another way that donors love to use their giving account, and it's with the Gift4Giving program. It's basically an e-gift that you can send to your family, your kids, your grandkids, or your friends, and it allows them to recommend a grant and experience giving for themselves and really the value of giving. They don't have to have their own account and you don't have to give them access to yours. And especially with the holidays around the corner, think of the conversations you might have with them around the Thanksgiving table. All right. The title of our conversation today as you all know by now is "Tax-Smart Strategies." We've talked about tax smart vehicles but let's dig into some very specific ideas that can help you maximize your charitable dollars. With the bull market run over the last decade there's really a good chance that you have some highly appreciated securities in your portfolio, and in fact in a Fidelity Charitable giving study called "The Giving Gap", one of the things we

found is that 80 percent of donors had appreciated assets, yet only about 21 percent had actually contributed those assets to charity.

Now, as I've met with clients, donors, and nonprofits over the years, I've been able to make a couple of observations from that. The first is they simply didn't even realize that giving appreciated assets to charity was an option. And two, it's difficult for charities to turn an asset like a business interest or real estate or stock that they're selling into cash that they really need. So that's either because of the complexity or cost to engage in such a transaction.

So Brandon, would you take this next slide and give us an example that illustrates the power of donating appreciated assets instead of cash?

Brandon O'Neill: Absolutely, Tim. So in this example what we're going to be looking at is a donor who's in the highest federal tax bracket. So they're subject to a 37 percent federal income tax rate, and they're subject to the highest capital gains rate, which is 20 percent, plus they're also subject to the Medicare surtax. So that brings that all the way up to 23.8 percent. In this example we're going to take a look at two scenarios: one, where the donor is going to donate cash from the proceeds of the stock that they had purchased, and the other is making the gift of the stock outright to a charity and/or a donor

advised fund. So in this particular example, this donor had actually purchased a Twitter stock two years ago. Let's say it was 20,000 dollars and Twitter's had some pretty significant price appreciation of about 150 percent in that two year period, and let's say now its current value is 50,000 dollars. So there's 30,000 dollars in unrealized capital gains tax here. So if this donor decided -- if we look on the right hand side -- if they decided to sell that stock to raise cash for a gift to charity, they would have to basically take 7,140 dollars and send that to the IRS in the form of capital gains tax, with the remaining amount of 42,860, they write a check to that charity that they want to support, giving them an income tax savings of 15,858 dollars. Not bad, but if they instead gifted the security outright to the charity or to a donor advised fund, you can really see where the efficiencies come in. Pardon me.

So if you look on the left you'll see the example of gifting the stock directly. They purchased at the same price of the current value. Where the difference really comes in here is that capital gains tax that would've gone to the IRS as not paid, and you get a full 50,000 dollar fair market value deduction on the date of the gift, so when that gift is completed to the charity or to a donor advised fund, that's when you get your deduction, and so it's a 50,000 dollar value, meaning that they save that 18,500 in income tax. So they're getting a greater deduction and more money is going to the organizations they care

about. So what I would really highlight on this chart is on the right hand side. That 7,140 dollars that would've gone to Uncle Sam in the form of capital gains tax is now going to your favorite charity. So you effectively can take that money and send it to your alma mater, or cancer research, or whatever cause you might feel is worthy of those funds. So you're effectively converting that capital gain into a charitable gain. And so if you take away anything from our discussion today, I think this is probably one of the most powerful ways to think about it. You have control on how those dollars are better served in the community.

Tim Shumway: That's great, Brandon, but I have clients say to me all the time that they don't really want to sell or give away a certain asset because for a number of reasons they want to hold onto it. So how would you answer that concern?

Brandon O'Neill: Yeah, so one of the neat ways we've seen people using a security gift to help in a portfolio strategy, and so for non-qualified assets in a non-retirement account is -- let's say you really wanted to hold onto this position. You could still hold that Twitter stock. You could gift it away but with free cash that you have in your portfolio you could effectively buy that stock back at today's valuation in giving you a much higher basis, so it can be a very powerful planning tool to maybe reestablish basis in a position you really,

really like, so when you do use those funds in the future for future whatever it might be, you're starting at a much higher basis than your original acquisition price. So we see that quite a bit when people are looking or reviewing their portfolio for charitable gifting purposes.

Tim Shumway: Very good. OK, we've discussed how tax reform has changed, how many Americans approach their charitable giving. Brandon, can you talk about a strategy that allows taxpayers to make the most of tax reform yet continue to give the same amounts to the same charities they've always been passionate about?

Brandon O'Neill:

Absolutely. So one of the biggest things that's happened with tax reform, to just put some framework around it, so the Tax and Jobs Act, when it was passed in 2017, was probably the most comprehensive tax reform we've seen in the last three decades. So a lot of changes happened with itemization and personal deductions. And as a result, 21 million households effectively lost their ability to itemize their taxes, and as a result lost their ability to itemize their most beloved deduction, which is the charitable deduction. So one of the things that we'll take a look at that affected many Americans was that there was a cap that was instituted on your state, local, and area taxes, so your SALT

deductions. They instituted a cap that basically says you cannot apply more than 10,000 dollars of those taxes on your federal returns. So it's made it harder for many people to use their entire deduction, so this affected individuals who were in high income tax states, or who were high income earners in those states, because you can only apply 10,000 on your federal return. The other issue that happened was they doubled the standard deduction. So for an individual it went from 6,000 to 12,200 with an inflation adjustment, and they've also -- for those filing joint -- went from 12,000 all the way to 24,400. So if we look on the left hand side of this chart, you'll see that number, 24,400 standard deduction, and you'll see a dotted line across the top of the slide there. So this is the hurdle that you effectively have to get over in order to itemize. And so in this particular example, in year one, we have an individual who has 10,000 dollars in state and local tax deductions that they can apply. They've got mortgage interest which they can apply as well, which the average mortgage interest in the United States is right around 5,000, so that's the one we're using here, and then let's say they're making a 10,000 charitable contribution. The good news is that they have exceeded the line. They have given 25,000 dollars -- their deduction amount is 25,000, meaning they're 600 dollars over the line. What this means from an income tax saving at the 35 percent income bracket means that they've saved 211 dollars in that first.

Now if they used this strategy, which is probably what they were using before, is just giving every year, over the next three years you effectively have only saved 630 in tax savings by giving 30,000 dollars over a three-year period. So that might be a strategy that people have used in the past, just consistently reach into their pocketbook and give to a charity. Instead, if you've got the financial capacity to do it, if you could give multiple years in one year to really maximize your savings. So if we look on the far right hand chart you'll see the numbers are the same until we get to the charitable donation itself: 30,000 contribution. What this basically will do is put you 20,600 dollars over the line. And by being that far over the line you can provide -- you get 7,210 dollars in income tax savings in that single year. Now keep in mind, in both examples this family is giving the same amount of money. One, you're doing 30,000 dollars over three years, in the other strategy is you're giving 30,000 in a single year, and that's going to provide you with that 7,200 dollar savings. So you're getting more of a savings just by being more planful on how you capture your deduction. And this can be a great way to use a donor advised fund to capture that deduction when you need it, but maybe if you want to give it over multiple years, you can give that 10,000 dollars in year one, and year two, and year three out to those charities, but you got a much more advantageous deduction on the way in.

Tim Shumway: That's really great. Brandon, this might be a good place to remind folks that while they're considering where and when to send those dollars out, because this slide doesn't really show it, that those dollars can be invested and grown tax free while they're inside the account. So very good information. OK. Back to you now Natasha: are there other strategies similar to bunching that our audience should consider?

Natasha O'Yang: Yes there are, Tim, but ideally the accelerated charitable giving can also be applied to times when clients may be experiencing a liquidity event, receiving a large bonus, doing a Roth conversion, really anything that puts them individual into the higher income tax bracket than where they are normally. Tim, can you please take us to the next slide to review an example of this? Perfect. So in this example of offsetting a high-income year, we have two strategies. On the left hand side, the first scenario is where a donor normally gives 10,000 per year, regardless of where their income tax bracket lands. You'll see in this scenario over a 10 year timeframe this donor will give 100,000 dollars and will receive around 25,000 in tax savings just by maintaining their annual giving strategy of 10,000 a year. On the right hand side in the second scenario, this donor recognizes that they're having a higher than normal income year, and they decide to bunch, or frontload, 10 years of

this planned giving. You can see that by simply being more strategic in their giving this donor receives a tax savings of 37,000 dollars, and that's an additional 11,700 dollars in tax savings. So in the second scenario you can see how being strategic in charitable giving helps a donor really maximize their charitable deduction and capture that deduction when they need it most in a high-income year. And as an added benefit, think about what this donor scenario would look like if they received a dual benefit of not only accelerating their giving. What's more is if you paired this strategy with the donor advised fund, the donor advised fund allows the donor the flexibility to give that 10,000 as they normally do anyways, and then also possibly grant out and increase their impact toward those causes that they care about by investing those assets within the donor advised fund over that 10 year time period. So this is very similar to Brandon's earlier example. As you can see, the donors are ultimately giving the same amount of assets, that 100,000 in a year, versus that 10 year period, but you can really see the benefit of giving strategically and putting that same time and due diligence into planning your charitable giving as you would normally do with any other component of your overall financial plan.

Tim Shumway: So I think this looks like they might consider maxing out their retirement contributions in the years leading up to retirement. That same

strategy could be applied to those pre-retirees looking to fund a charitable nest egg as well.

Natasha O'Yang: You're absolutely right Tim.

Tim Shumway: OK. Now our fourth and final potential strategy for the year-end is using the IRA charitable rollover. Without question, the most popular question we receive when we deliver seminars and meet with clients in regards to the qualified charitable distributions, or QCD. The QCD allows you to send money directly from an IRA to your charities, so Brandon, can you let everyone on the call know what a QCD is, how it works, and the benefits, please?

Brandon O'Neill:

Yeah, absolutely, Tim. So the qualified charitable distribution is probably one of the best ways for many people in retirement to manage their income tax liability while maintaining their charitable support. So what this basically allows you to do is for those individuals who are 70 and a half and have to take their required distribution, and when they take that distribution, it's treated as income. There's a provision in the IRS code that basically says, instead of you taking the income, you can say, you know what, send it to a charity that I want to support. And when you do that, it satisfies the required minimum

distribution, but it's not treated as income for you but you don't get a second deduction. You're basically taking that requirement and sending it to charity. There is a maximum cap per year so you can do up to 100,000 dollars out of an IRA to a public charity. One of the things to be aware of is you cannot use your qualified charitable distribution to be made to any strategic giving vehicle, including donor advised funds, private foundations, or any type of supporting organizations. But this can be a great strategy for many retirees who are itemizing or who have a majority of their assets in an IRA to basically get those money to those organizations they want to support.

Tim Shumway: OK. We talked a lot about Fidelity Charitable and the giving account.

But just to bring the organization to life, here's just a few stats about our donors and the impact they're having. The giving account started in 1991. It's an independent public charity separate and distinct from Fidelity Investments and it's governed by an independent board of trustees. As the largest donor advised fund in the U.S. our mission is simple: to grow philanthropy programs by providing programs that make giving assessable, simple, and effective. We have over 120,000 donors in our program and something we're really proud of is that nearly 300,000 nonprofits around the world have received grant recommendations from our generous donors of the past 28 years to the tune of about 35 billion dollars. You may be surprised to know also that Fidelity

Charitable is now the largest grant making organization in the U.S. Last year alone, our donors sent along 5.2 billion to their favorite charities.

Let me just touch on a couple things to know if you're considering making a gift before year-end. Really, at the very end is December 31st if your assets are held at Fidelity. It's very easy to make a contribution right up to the very end. Any monies outside Fidelity take a little longer, especially if you have to transfer them into Fidelity. OK, and then finally your next steps, since we've covered a lot of information, really at the 10,000-foot level, if you want to know what this means for your individual plan, just call, click, or visit our financial consultants in your area.

OK. Natasha and Brandon, what is the one thing that you'd want the audience to walk away with? Natasha, let's go ahead and start with you.

Natasha O'Yang: Sure. So although we're talking about this topic close to the end of the year, charitable conversations should be conversations that we're having throughout the entire year. At Fidelity Charitable, we, like many other charities, receive 70 percent of our donations in the last few weeks of the year. And when we look at last year as an example, when the market took an unexpected dip, that really deterred a lot of donors from giving as much as

they had originally plan to give. So ultimately I want to emphasize that donors shouldn't let the market dictate their giving. You can really make good investment decisions at any time of the year to help fulfill your charitable giving goal.

Tim Shumway: Excellent. And Brandon?

Brandon O'Neill: Yeah, for me I think if there was any -- if there was one takeaway from today's session, I would say just take a few moments before you write that check. Writing a check really allows you to give with your heart, but before you write that check, maybe take a step back and think about your investment portfolio. Think about what are some of the other ways that are going to allow you to not just give with just your heart, but give with both your heart and your head by giving the right types of assets. And like I'd mentioned earlier, those tend to be highly appreciated assets in a non-qualified account that are really going to amplify the savings for you, but more importantly put more money into the hands of the causes of the organizations that you're caring about, and by being a little bit more thoughtful and planful, especially in this post-tax reform world, you just need to think about giving just a little bit differently and really think about how can I make a more impactful gift.

Tim Shumway: Really great. And I might add my two cents here which is keep in mind that we actually -- while their stated minimum is 5,000 dollars, you can actually open a zero balance giving account and name Fidelity Charitable as the beneficiary of your IRA or in your estate so that your heirs -- basically you create a charitable legacy or even an endowment as well. And as Brandon mentioned earlier, most folks don't give to charity because there's a tax benefit. And so the reason donors use our giving account it's because it's easy. All giving and tax reporting is online 24/7 and so it just makes your giving so assessable. So someone once asked me, "Tim, how would you describe the perfect day?" And for me it probably involves golf in some way, shape, or form, but the reality is that wasn't the answer. The answer was the perfect day is the day in which you do something for someone else that they cannot do for themselves. And that's really what you're doing when you make a contribution to charity is you're providing that for them.

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