

TAX STRATEGIES FOR 2020 CHARITABLE GIVING



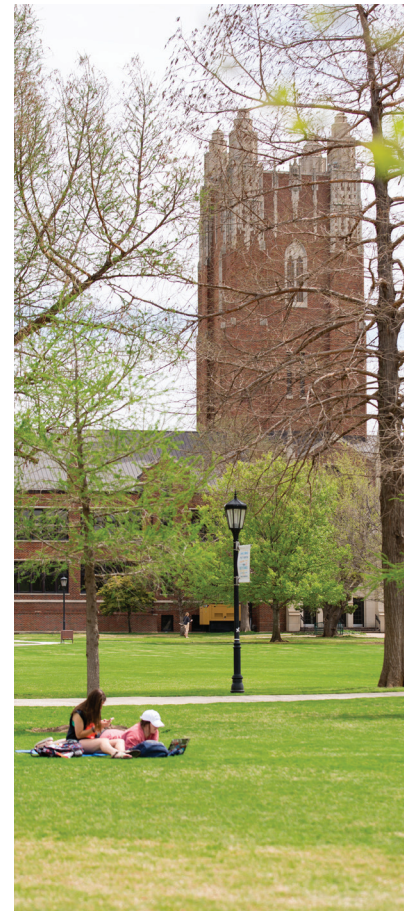
Oklahoma City
UNIVERSITY

SECURE ACT

In December of 2019, the Setting Every Community Up for Retirement Enhancement (SECURE) Act was signed into law as part of a larger government spending package. The SECURE Act includes a number of important changes that impact retirement and estate planning.

KEY CHANGES IN THE SECURE ACT

- **Increase Age for Required Minimum Distributions (RMDs)**
 - The SECURE Act increased the age for retirement account owners to begin required withdrawals from their qualified Individual Retirement Account (IRA) to age 72. Benefactors can still begin making IRA charitable rollovers (also called qualified charitable distributions) at age 70½.
- **Modifications to RMD Distribution Rules for Beneficiaries**
 - The SECURE Act eliminates the ability to “stretch” inherited retirement plan distributions over beneficiary lifetimes (with limited exceptions).
- **Repeal of Maximum Age Threshold for Traditional IRA Contributions**
 - Unlike in prior years, individuals can continue to contribute to traditional IRA plans past age 70½.



CARES ACT

In March of 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law. The intent of the Act is to bring financial relief to those individuals and businesses that have been impacted by the COVID-19 pandemic. Included in the Act are provisions intended to stimulate charitable giving and to provide more flexibility with retirement accounts.

KEY CHANGES IN THE CARES ACT

- **Cash Gifts** – The CARES Act enables a taxpayer who takes the standard deduction to still benefit from his or her charitable gifts. A \$300 above-the-line deduction is now available for gifts of cash by a non-itemizer; but the gift may not be to a donor-advised fund or supporting organization.
- **100% Charitable Deduction Limit** – For 2020, gifts of cash to OCU (excluding donor advised funds and supporting organizations) are deductible up to 100% of adjusted gross income (AGI). The gift may be for a charitable purpose and is not limited to gifts for Coronavirus relief. This is an increase from the 60% AGI deduction limit for cash gifts to public charities.
- **Required Minimum Distribution (RMD) Waiver** – The RMD is waived for IRA and other qualified retirement plan owners for the year 2020. This provision will permit IRA and other qualified retirement plan owners to retain funds in their IRAs; however, benefactors will still have the option to make IRA charitable rollovers of up to \$100,000 in the calendar year from their IRA.
- **Increased Charitable Deduction Limit for Corporations** – The CARES Act increased the percentage limitation for charitable deductions for corporations from 10 to 25% of the corporation’s taxable income for 2020.

2020 STANDARD DEDUCTIONS

- **Single Taxpayers:** \$12,400
- **Married Couples:** \$24,800



2020 TAX BRACKETS

SINGLE TAXPAYERS

Taxable Income	Tax Rate
Up to \$9,875	10%
Over \$9,875 to \$40,125	12%
Over \$40,125 to \$85,525	22%
Over \$85,525 to \$163,300	24%
Over \$163,300 to \$207,350	32%
Over \$207,350 to \$518,400	35%
Over \$518,400	37%

MARRIED COUPLES

Taxable Income	Tax Rate
Up to \$19,750	10%
Over \$19,750 to \$80,250	12%
Over \$80,250 to \$171,050	22%
Over \$171,050 to \$326,600	24%
Over \$326,600 to \$414,700	32%
Over \$414,700 to \$622,050	35%
Over \$622,050	37%

2020 TAX RATES ON LONG-TERM CAPITAL GAINS

SINGLE TAXPAYERS	MARRIED COUPLES	HEADS OF HOUSEHOLD	
Taxable Income Over			Tax Rate
\$0	\$0	\$0	0%
\$40,000	\$80,000	\$53,600	15%
\$441,450	\$496,600	\$469,050	20%
Additional Net Investment Income Tax (NIIT) for Individuals Based on Modified Adjusted Gross Income (MAGI)			
MAGI above \$200,000	MAGI above \$250,000	MAGI above \$200,000	3.8%

A 3.8% NIIT applies to individuals, estates, and trusts that have net investment income above applicable threshold amounts. In the case of an individual, the NIIT is 3.8% on the lesser of the net investment income, or the excess of the MAGI threshold amounts listed above.

ITEMIZED DEDUCTIONS

STATE AND LOCAL TAX DEDUCTION

- The state and local tax deduction (property, and state and local taxes) is limited to \$10,000 annually.
- A taxpayer also has the option to substitute state sales taxes for state income taxes.

MORTGAGE INTEREST DEDUCTION

- The mortgage interest deduction remains for loans on first and second homes but is limited to interest on new mortgage loans up to \$750,000.
- Interest on mortgage loans up to \$1 million that existed prior to 2018 may still be deducted.

MEDICAL DEDUCTION FLOOR

- The medical deduction floor is 7.5% for 2020.

CHARITABLE DONATIONS

- The CARES Act establishes a new \$300 charitable deduction available to taxpayers who do not itemize their deductions.
- The CARES Act also increases the available deduction for qualified charitable contributions made in 2020 to 100% of adjusted gross income for certain cash contributions.
- Other charitable deduction limitations remain unchanged under the CARES Act.



STRATEGIES FOR CHARITABLE TAX PLANNING

As you consider the impact of the SECURE and CARES Acts on your 2020 taxes, it is important to compare total itemized deductions to the standard deduction amount and itemize when total deductions exceed the standard deduction amount.

Charitable gifts will be most advantageous in years when you can itemize deductions, as charitable gifts in these years will increase your itemized deductions and help reduce taxes. You may also want to increase your charitable contributions in years you can itemize deductions if it is unlikely you will be able to itemize in future years, or if you will be in a lower tax bracket in future years.

The passing of the CARES Act presents additional unique planning opportunities for the 2020 tax year, as you are now able to potentially offset 100% of your total income using charitable deductions with careful planning.

We recommend you consult with your tax advisor when you evaluate the amount and timing of any charitable gift.

ACCELERATED CHARITABLE GIVING IN TO THE CURRENT YEAR

With new limitations applying for itemized deductions, some taxpayers may find that accelerating their charitable giving into one year will allow them to itemize deductions that year and thereby potentially reduce their tax liability.

MAKE GIFTS OF LONG-TERM APPRECIATED ASSETS

Giving a gift of long-term appreciated securities is in most cases more tax advantageous than giving cash. This is because capital gains taxes can be avoided on gifts of long-term appreciated assets.

For taxpayers who will not be able to itemize deductions in a given year, gifts of long-term appreciated securities are now an especially important tool in their tax reduction tool kit.

MAKE AN IRA CHARITABLE ROLLOVER GIFT

The SECURE Act increases the age at which taxpayers are required to begin taking minimum distributions from their IRAs from 70^{1/2} to 72. These taxpayers can avoid including all or some of their RMD in their taxable income by making a charitable gift of up to \$100,000 directly from their IRA which will count towards the current year's RMD.

The CARES Act includes a provision allowing all retirement account holders to forgo taking required minimum distributions for 2020. Taxpayers aged 70^{1/2} and older are still able to make IRA Charitable Rollover gifts. The strategy remains one of the most tax-efficient options for charitable giving, particularly for those taxpayers who will not itemize deductions but want to minimize taxable income.



EXAMPLE 1

ACCELERATE CHARITABLE GIVING IN CURRENT YEAR

Denise is 35 years old and single. Denise's 2020 taxable income is \$100,000, which puts her in the 24% income tax bracket. Denise's total itemized deductions other than charitable contributions total \$11,000 in 2020. Denise decides to increase her annual giving by making a \$5,000 gift to Oklahoma City University to join the Bright Society at the Supernova Level. Her 2020 total itemized deductions are now \$16,000, which is \$3,600 greater than the standard deduction of \$12,400. Accordingly, her Bright Society gift will reduce her 2020 taxes by \$843 (i.e., \$3,600 X 24%) above the standard deduction.



EXAMPLE 2

MAKE GIFTS OF LONG-TERM APPRECIATED ASSETS

Matt and Lynn are both 55 years old and have long-term appreciated stocks that are valued at \$100,000 that they purchased 10 years ago for \$40,000. With the higher standard deduction for married couples filing jointly, Matt and Lynn have been looking for creative ways to make their charitable gifts and reduce their tax liability.

Gifts of long-term appreciated securities (i.e., stocks held for more than a year) are often the best source of a charitable gift because the benefactor receives an income tax deduction for the full fair market value of the stock contributed to Oklahoma City University and can avoid capital gains tax on these appreciated securities.

Matt and Lynn can make a gift of their long-term appreciated stock to Oklahoma City University, receive an income tax deduction of \$100,000, and avoid capital gains tax. Oklahoma City University can then sell these shares at their appreciated value which is then available to further Oklahoma City University's mission.

Another option for Matt and Lynn would be to fund a Oklahoma City University Charitable Remainder Trust (CRT) with their gift of long-term appreciated stock and avoid currently paying capital gains tax. The CRT will create a lifetime income stream for Matt and Lynn, and they would also be eligible to take an immediate income-tax deduction equal to a portion of the gift.

To learn more about the specific advantages of an Oklahoma City University CRT, contact our Office of Gift Planning at 405-208-5454.



EXAMPLE 3

IRA CHARITABLE ROLLOVER REDUCES TAXABLE INCOME IN 2020

Susan is 75 years old and widowed. Susan's 2020 taxable income is \$100,000, which puts her in the 24% tax bracket. Susan has a traditional Individual Retirement Account (IRA). Since Susan turned 70½ years of age prior to January 1, 2020, she would normally be required to take an annual minimum IRA distribution. While the CARES Act has relieved her of that requirement of 2020, Susan would still like to support Oklahoma City University's Bright Society through her IRA and would like to do so in a tax-efficient way.

Susan decides to make an IRA Charitable Rollover gift of \$10,000 to Oklahoma City University's Bright Society at Pinnacle Level.

If Susan were to take a \$10,000 distribution from her IRA, her taxable income would increase from \$100,000 to \$110,000, and her income tax would increase by \$2,400 ($\$10,000 \times 24\%$). However, by making this a Charitable Rollover gift from her IRA to Oklahoma City University of \$10,000, Susan accomplishes the following:

- Her taxable income remains at \$100,000; and
- Susan helps deserving students realize their dream of attending Oklahoma City University.



THANK YOU FOR CONSIDERING OKLAHOMA CITY UNIVERSITY IN YOUR CHARITABLE GIVING.

Our goal is to provide you with helpful information within this booklet as you review the impact of these recent tax changes on your charitable giving. To learn more about the tax strategies outlined in this booklet, please contact our Office of Gift Planning at 405-208-5454. Thank you for all you do for Oklahoma City University.



GIFTS THAT QUALIFY FOR GOLD STAR SOCIETY RECOGNITION

The Gold Star Society recognizes alumni, donors and individuals who provide support for Oklahoma City University through a variety of estate planning tools.

ESTATE PLANNING GIFTS ELIGIBLE FOR RECOGNITION ARE:

- Bequest commitments made by will or revocable living trust;
- Designation of Oklahoma City University as a beneficiary of an IRA, 401(K) or other retirement plan;
- Charitable Gift Annuities;
- Charitable Remainder Trusts;
- Establishing an account (bank, brokerage, mutual fund, etc.) that is payable on death (POD) to Oklahoma City University;
- A gift of a farm or residence with a retained life estate;
- Naming Oklahoma City University as beneficiary of a commercial annuity;
- Life insurance, naming Oklahoma City University as owner, beneficiary or both.



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