

CHARITABLE PLANNING

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**NOSTRO JONES, October 23, 2015
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Estate Tax Exemption and Income/Gift Estate Tax Rates

Year	Exemption Equivalent	Rate	Annual Exclusion
2009	\$3,500,000	45%	\$13,000
2010	None	35%	\$13,000
2011	\$5,000,000	35%	\$13,000
2012	\$5,120,000	35%	\$13,000
2013	\$5,250,000	40%	\$14,000
2014	\$5,340,000	40%	\$14,000
2015	\$5,430,000	40%	\$14,000

Federal Income Tax Rates: 2012 vs 2015

Income Taxes	2012	2015
Income Tax Rates	Maximum rate of 35% (10%, 15%, 25%, 28%, 33% and 35% income tax brackets)	Maximum rate of 39.6% (or 43.4% with health care surtax) (10%, 15%, 28%, 33%, 35% and 39.6% income tax brackets)
Dividends	15% (0% for taxpayers under 25% bracket)	Ordinary income treatment (taxed at rates listed above)
Qualified Dividends	15% (0% for taxpayers under 25% bracket)	20% for taxpayers in 39.6% bracket 15% for taxpayers in 25%, 28%, 33% and 35% brackets 0% for taxpayers under 25% bracket
Long-Term Capital Gains	15% (0% for taxpayers under 25% bracket)	0% for taxpayers under 25% bracket 15% if in 25%, 28%, 33% and 35% brackets 20% if in 39.6% bracket (or 23.8% with health care surtax)
Health Care Surtax	Not Applicable	3.8% on lesser of (i) net investment income; or (ii) excess of modified adjusted gross income over the "threshold amount" (\$250,000 for married couple; \$200,000 for individual taxpayers)

AGI and Valuation Limitations on Gifts to Public Charities/Donor Advised Funds & Private Foundations

Type of Asset Donated	Public Charity or Donor Advised Fund	Private Foundation
Ordinary Income Property	50% AGI/FMV	30% AGI/FMV
Capital Gain Property	30% AGI/FMV	20% AGI/Cost Basis
Qualified Appreciated Stock	30% AGI/FMV	20% AGI/FMV

3% Limitation on Itemized Deductions.

There was a reinstatement in 2013 of the floor set on itemized deductions for married taxpayers in excess of adjusted gross income of \$300,000, indexed for inflation. The income threshold is \$309,900 for married taxpayers filing jointly in 2015. **IRC Section 68(b)**

1. The floor imposed on itemized deductions is the lesser of:
 - a) 3% of adjusted gross income; or
 - b) 80% of the allowable deductions. **IRC Section 68(a)**

Applicable Federal Rates

- a) The September 2015 applicable federal rate was only 2.2%
- b) The chart listed below shows the fluctuation of the applicable federal rates in the month of September over the last ten years:

Month	Section 7520 Rate
September 2015	2.2%
September 2014	2.2%
September 2013	2.0%
September 2012	1.0%
September 2011	2.0%
September 2010	2.4%
September 2009	3.4%
September 2008	4.0%
September 2007	5.8%
September 2006	6.0%

Recent AFRs

October 2015				
Period	Annual	Semi-Annual	Quarterly	Monthly
Short-Term	0.55%	0.55%	0.55%	0.55%
Mid-Term	1.67%	1.66%	1.66%	1.65%
Long-Term	2.58%	2.56%	2.55%	2.55%
September 2015				
Period	Annual	Semi-Annual	Quarterly	Monthly
Short-Term	0.54%	0.54%	0.54%	0.54%
Mid-Term	1.77%	1.76%	1.76%	1.75%
Long-Term	2.64%	2.62%	2.61%	2.61%
August 2015				
Period	Annual	Semi-Annual	Quarterly	Monthly
Short-Term	0.48%	0.48%	0.48%	0.48%
Mid-Term	1.82%	1.81%	1.81%	1.80%
Long-Term	2.82%	2.80%	2.79%	2.78%

TOM TAXPAYER CHARITABLE REMAINDER ANNUITY TRUST

GIFT OF \$5,000,000 OF APPRECIATED STOCK WITH \$3,000,000 CAPITAL GAIN

OCTOBER 2015 – 2% SECTION 7520 RATE

**Tom
Taxpayer
Age 81**

**\$5,000,000 of
appreciated stock**

**Tom receives a
\$3,250,000 charitable
income tax deduction**

**\$975,000 tax savings
@ 30% tax rate**

No gift or
estate
taxes

**Internal
Revenue
Service**

**Tom will receive a
\$250,000 annual
annuity for his life**

**Tom Taxpayer Lifetime
Charitable Remainder
Annuity Trust**

**After Tom's death,
the Trust assets
will pass to charity
or his private
foundation**

[\$5,000,000 if the

Tom Taxpayer, Option 1: Fund a Lifetime Charitable Remainder Annuity Trust (“CRAT”) with Appreciated Stock

Tom Taxpayer gifts \$5,000,000 of appreciated stock with a cost basis of \$2,000,000 to the Tom Taxpayer CRAT in October 2015.

Tom retains a \$250,000 annuity for life, payable in annual installments (5% CRAT).

Tom is age 81. His life expectancy is 8 years.

The charitable income tax deduction is \$3,250,000, saving \$975,000 of income taxes at a 30% rate.

The tax deduction may be used up to (i) 30% of AGI annually if gifted to a public charity or donor advised fund; and (ii) 20% of AGI if a private foundation is used as the CRAT remainder beneficiary.

Excess charitable income tax deductions may be carried forward for 5 years.

Tom Taxpayer, Option 1: Fund a Lifetime Charitable Remainder Annuity Trust (“CRAT”) with Appreciated Stock (Example Continued)

Charitable income tax deductions may be subject to the 3% floor on itemized deductions.

The \$3,000,000 capital gain would be deferred in the CRAT and be extinguished on Tom’s death.

Assuming a 4% annual return in year one, the \$200,000 of income generated would be reported on Tom’s individual income tax return.

\$50,000 of the \$3,000,000 capital gain deferred inside the CRAT would be taxed on Tom’s return. (Assuming the same results over Tom’s 8 year life expectancy, only \$400,000 of the \$3,000,000 capital gain will ever be reported.)

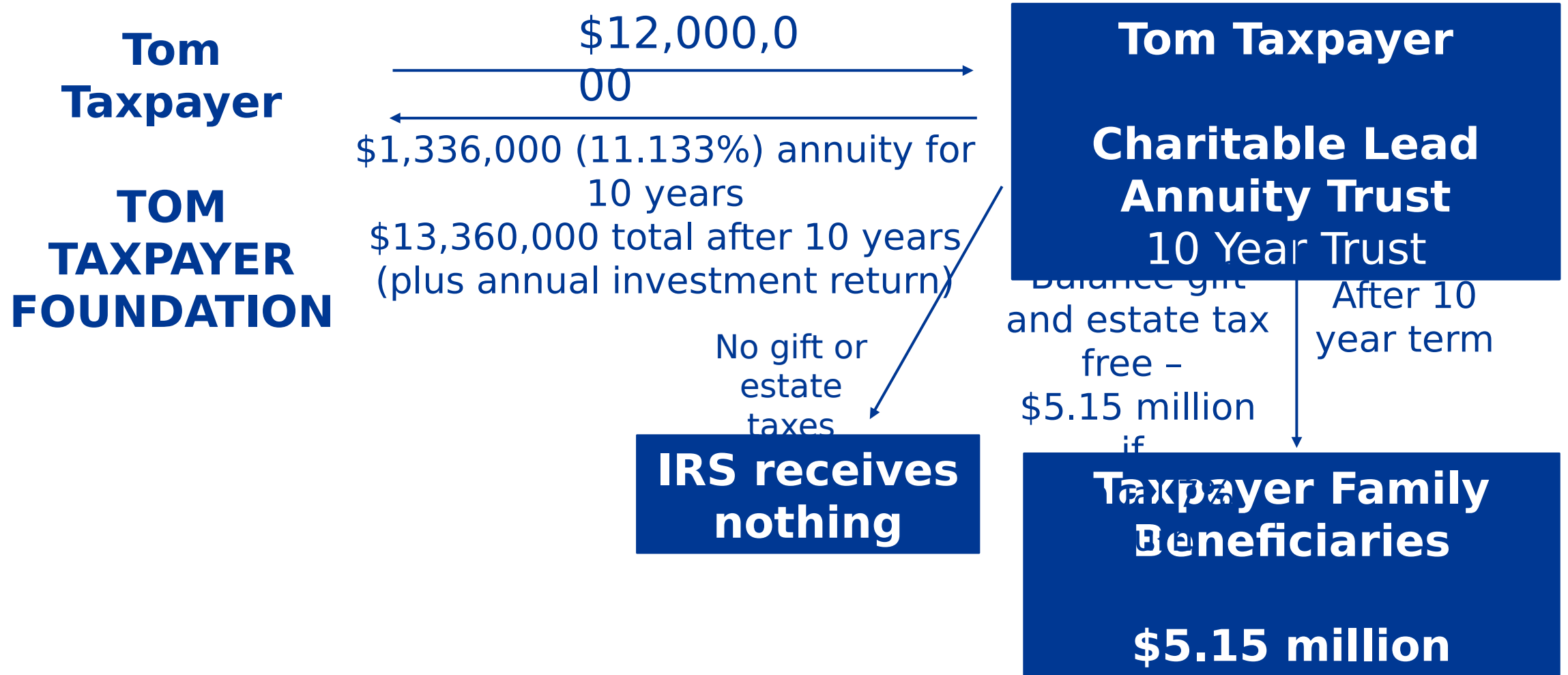
Tom Taxpayer, Option 2: Sale of Appreciated Stock

If Tom instead sold \$5,000,000 of appreciated stock with a cost basis of \$2,000,000 instead of gifting the stock to a CRAT, Tom would recognize \$3,000,000 of capital gains (assuming no offsetting capital losses).

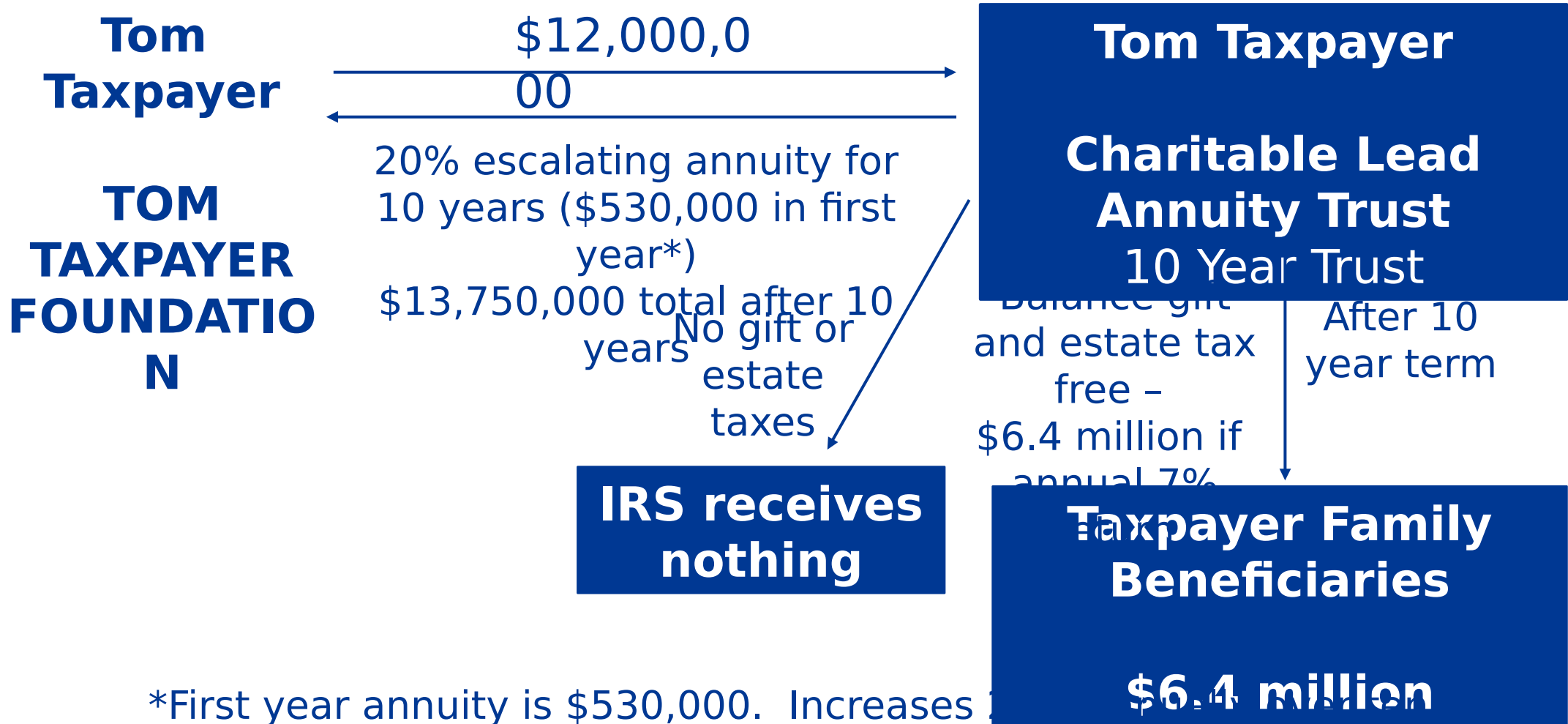
Assuming a 23.8% tax rate, Tom would pay \$714,000 of capital gain tax.

A 5% annual return on the \$4,286,000 net proceeds would produce \$214,300 annually (compared to the \$250,000 generated annually by the CRAT).

TOM TAXPAYER CHARITABLE LEAD ANNUITY TRUST PLAN



TOM TAXPAYER CHARITABLE LEAD ANNUITY TRUST PLAN [20% ESCALATING ANNUITY]



*First year annuity is \$530,000. Increases 7% each year over 10 year term (\$635,000 in year 2, \$762,000 in year 3, etc.) 20% annual escalation provision shifts an additional \$1,250,000 to beneficiaries free of estate tax.