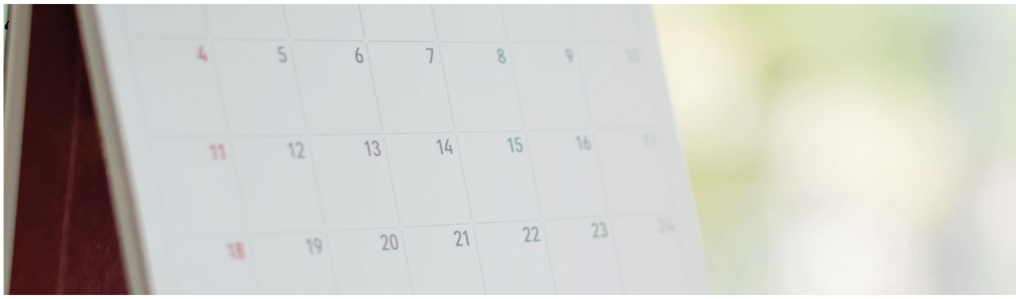
Charitable Deduction Limitations and the "Deduction Stretch Charitable Gift Annuity"



In previous articles, we examined the charitable deduction limitations imposed by the Internal Revenue Service on charitable donations. We also looked at some practical ways to plan your charitable giving with these rules in mind. This month, we will focus on a unique tool, the "Deduction Stretch Charitable Gift Annuity," which may help with your planning. First, let's once again review the rules.

An Overview of the IRS Rules:

- When donating **CASH** to a public charity, you can donate any amount you desire. However, you can deduct a maximum of **60% of your Adjusted Gross Income** in that year.
- When donating **APPRECIATED ASSETS**, such as stock, real estate, or shares of a business, you can deduct only **30% of your Adjusted Gross Income** in that tax year when using the Fair Market Value as a basis for the deduction.
- When donating **APPRECIATED ASSETS**, you can deduct up to **60% of your Adjusted Gross Income** when using your Cost Basis as a basis for the deduction.
- Any excess deductions can be carried forward for up to **five additional years**.
- Donations to a **private foundation** are subject to reduced limits—**30% for CASH and 20% for APPRECIATED ASSETS** deducted at Fair Market Value.

The "Deduction Stretch Charitable Gift Annuity" may be helpful for addressing the 60% AGI Limitation if giving above the deduction limit.

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The “Deduction Stretch Charitable Gift Annuity” is ideal for those who make a large donation but will not be able to completely utilize their deductions over six years because of the AGI deductibility limitations. I learned about this concept from my colleague Bryan Clontz, President and Founder of Charitable Solutions, LLC. In the following article, Bryan explains how it works:

> **This Isn't Your Grandfather's Gift Annuity PART II: Six MORE Advanced CGA Applications**
> Click here to learn more.
>
> *Most advisors and donors know that a charitable deduction can only be used in the year of the gift, plus an additional five carry-forward years. There is no way to increase that . . . unless there is! What if a donor, who has no interest in receiving a life income, calibrates the donation between an outright donation and a deferred Charitable Gift Annuity such that the entire deductible amount can be used over the six years? Then, after the full deduction is used by year seven, the donor simply revokes some or all of the deferred CGA. That triggers a new charitable income tax deduction for a new six-year period. For all the donors who wish to donate more—or have CPAs who tell them they shouldn't—but don't want to lose any deductions, this is a simple solution. Even better, the future donation can be triggered in ANY year at ANY amount to be even more optimal.*

The beauty of this approach is that the Gift Annuity provides flexibility to the donor. Placing the donation into the Gift Annuity delays the charitable gift to the organization and, as a result, reduces the amount of the gift value for the purpose of the tax deduction in that year. The aim is to calculate a funding amount that the donors can use to maximize their charitable deductions over the first six years, without exceeding the annual 60% AGI Limitation. After six years, the donor can release some of the CGA funds to the organization, thus accelerating some of the remainder gift. This would provide the donor a new income tax deduction when he is ready to use it.

If you would like to explore this concept further, the Planned Giving staff at the Dallas Seminary Foundation would be happy to answer your questions and run calculations for you.