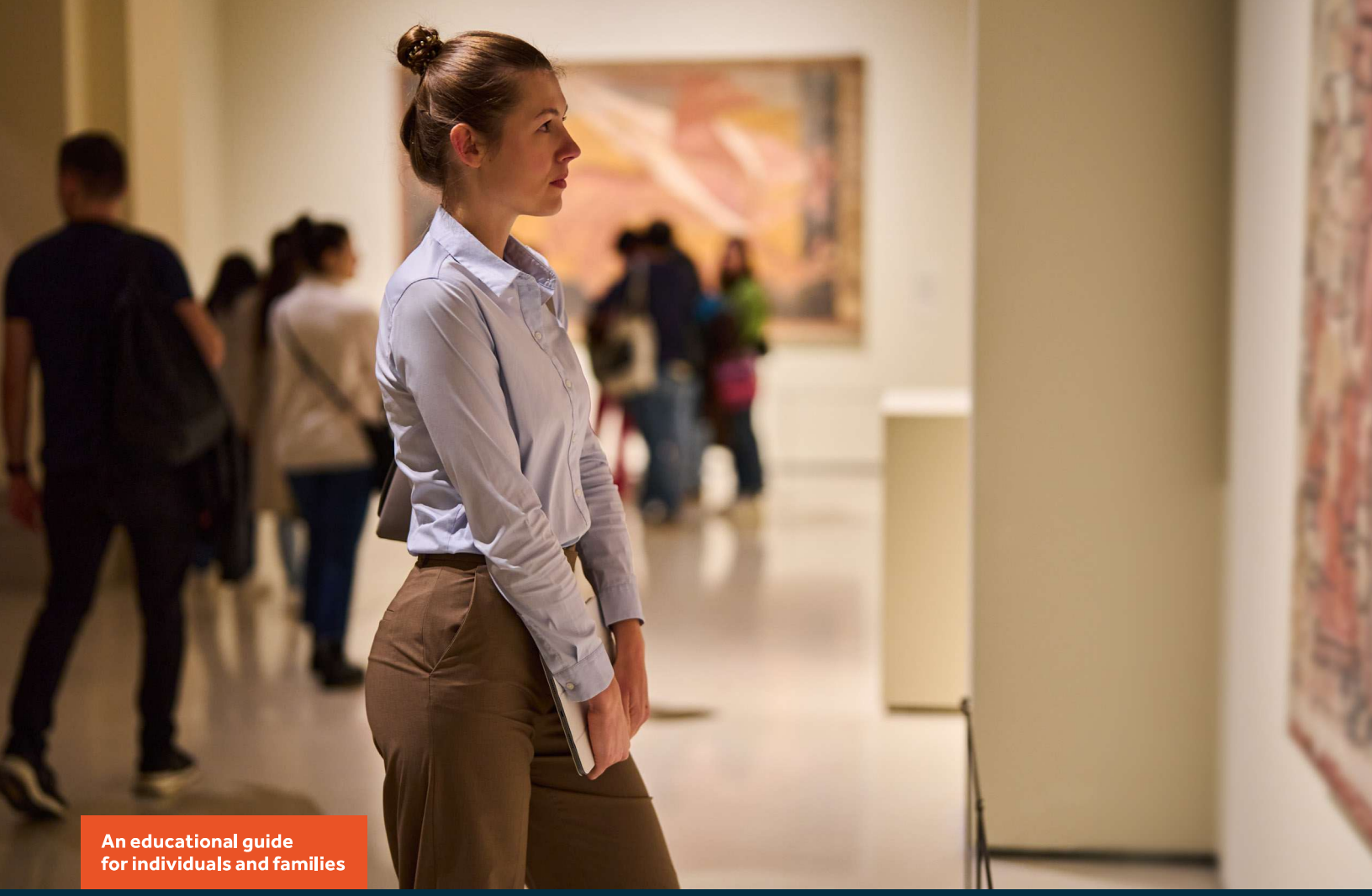


An educational guide
for individuals and families

Sharing your legacy

Strategies for charitable giving

Guardian Wealth™
Advanced Markets

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What are philanthropy and charitable giving?

The origin of the word "philanthropy," generally attributed to the Ancient Greeks, means "love of humanity." Over time, philosophers have generally defined "philanthropy" as private initiatives for the public good that focus on the quality of life.



Americans are generous people

According to *Giving USA 2023: The Annual Report on Philanthropy for the Year 2022,* Americans donated over $499 billion in 2022, $319.2 billion of which came from individuals.[1]

Charitable tax deductions

Some individuals are also motivated by the tax benefits associated with charitable giving. Depending on the situation, donating to charity may qualify the gift for an income, gift, and/or estate tax charitable deduction:

- When contributions are made during the donor's lifetime, there may be an income tax deduction and a gift tax deduction.
- When contributions are made upon the donor's death, the deduction may be an income tax deduction and/or estate tax deduction.

How do charitable gifts qualify for a tax deduction?

In order for a charitable gift to qualify for a full tax deduction, the charity must receive some benefit from the donated property and the donor cannot expect to receive any economic benefit from the charity in return for the donation.

The law also requires that contributions of $250 or more in cash or property be substantiated by a contemporaneous written acknowledgement of the contribution from the charitable organization as well as other requirements, depending upon the value of the contribution and the type of asset gifted. (For a quick summary of some of the requirements, please refer to the "Substantiation of gifts" chart on the next page.) The deduction is also limited based on various factors, including:

- Whether the charity is considered a public charity or a private charity.
- The type of property donated.
- If the donation is "to" the charity or "for the use" of the charity.



Note that when we mention taxes, we are limiting our discussion to federal taxes. Individual states have differing rules with regard to state tax consequences of charitable gifts. Be sure to consult with your own tax and legal advisor about your individual situation.

Substantiation of gifts

Type of gift	Substantiation rules	Tax reporting
Cash gift under $250	Acknowledgement from charity, bank record, cancelled check	IRS Form 1040, Schedule A
Cash gift of $250 or more	Contemporaneous, written acknowledgement from charity	
Non-cash gift under $250	Receipt from charity	
Non-cash gift of $250 to $499	Contemporaneous, written acknowledgement from charity	
Non-cash gift of $500 to $5,000	Contemporaneous, written acknowledgement from charity and written records	Attach Form 8283, Section A to IRS Form 1040
Non-cash gift of over $5,000	Contemporaneous, written acknowledgement from charity, written records, and qualified appraisal (except for publicly traded securities)	Attach Form 8283, Section B to IRS Form 1040
Non-cash gift over $500,000	Contemporaneous, written acknowledgement from charity, written records, and qualified appraisal	Attach Form 8283 and qualified appraisal to IRS Form 1040
Cars, motor vehicles, planes, boats of more than $500 but less than $5,000	Contemporaneous, written acknowledgement from charity	Attach Form 8283 to IRS Form 1040 and IRS Form 1098-C
Closely held stock over $5,000 to $10,000	Contemporaneous, written acknowledgement from charity, written records, and qualified appraisal	Attach Form 8283, Section B to IRS Form 1040
Closely held stock over $10,000		Attach Form 8283, Section B and qualified appraisal to IRS Form 1040
Artwork of $20,000 or more		

For more information and detailed descriptions on the substantiation requirements, please refer to IRS Publication 1771, Charitable Contributions — Substantiation and Disclosure Requirements; IRS Publication 4302, A Charity's Guide to Vehicle Donation, and IRS Publication 4303, A Donor's Guide to Vehicle Donation; all of which can be found on the IRS's website, irs.gov.

The income tax deduction will generally be limited to 50%, 30%, or 20% of the donor's adjusted gross income (AGI), as follows:

- **The 50% limitation** applies generally to gifts "to" public charities and some private charities — including schools, churches, hospitals and medical research facilities, federal and state governments, and publicly supported charities and their supporting organizations.[2] These organizations are commonly referred to as "50%-type organizations."
  - The gift must be a gift "to" the charity, meaning that it must be an outright gift with "no strings attached."
- **The 30% limitation** applies generally to gifts of most long-term capital gain property "to" the "50%-type organization" and other types of contributions, such as cash gifts "for the use of" the "50%-type organizations."
  - Gifts of short-term capital gain property would be subject to the 50% limitation.
- **The 30% limitation** also applies generally to gifts "to" private foundations, veterans' associations, fraternal groups, and private non-operating foundations, commonly referred to as family foundations. These organizations are commonly referred to as "30%-type organizations."
  - Gifts include cash gifts donated "to" or "for the use of" the private foundation, and ordinary income as well as short-term capital gain property.
- **The 20% limitation** applies generally to gifts of long-term capital gain property to most private charities, such as a private foundation.

With respect to income tax deductions, if your charitable contribution for the year exceeds the limitations that are allowed as an income tax deduction in that year, you may carry over the excess for up to five (5) succeeding years. This is commonly referred to as the "5-year carryover rule" for income tax charitable deductions.

The calculation of any available deductions can be more complicated than stated above, depending upon the type of property gifted. The above limitations are merely a summary of the income tax deductions that may be obtained based upon the most commonly made properties gifted, such as cash and marketable securities. Consult your tax advisor for more information about your individual situation.

What do Americans give?

Generally, charitable gifts fall into two categories. The first is "time and talent" — a phrase that is exactly what it sounds like. The second category involves the giving of "treasures," which can include:

- Cash
- Tangible personal property
- Publicly traded securities
- Artwork
- Interests in closely held businesses
- Retirement accounts
- Life insurance policies
- Real estate
- Partial interest rights
- Other assets

Cash

The simplest way to give your "treasures" is through cash donations. This may also be the best type of gift from the charity's perspective, since the charity can immediately put the donation to use in any manner it chooses. Probably the most common way for most Americans to give cash is by writing checks to their favorite organizations. This is often referred to as "checkbook philanthropy."

Tangible personal property

Tangible personal property generally consists of items such as automobiles, furniture, artwork, jewelry, and other collectibles.

The calculation of the tax deduction for donations of tangible personal property is generally dependent upon whether or not the property is related to the charitable purposes of the organization. This is known as the "related use" doctrine.

If the property is related to the charitable purposes of the charity, then the deduction is based upon the full fair market value of the property, instead of its cost basis, which may be significantly lower. For example, the donation of a painting to an art museum is probably a related use and the deduction would be based upon the fair market value of the painting. However, donation of a painting to some other type of charitable organization, such as a youth center, is probably not a related use and the deduction would be based upon the lesser of the cost basis or the fair market value.

For related use property, the deduction would be based upon the 30% limit (20% if the contribution is made to a private foundation).

Publicly traded securities

Publicly traded securities and mutual funds are probably the most frequently used assets, other than cash, for charitable gifts. Publicly traded securities are considered capital assets that, if held for:

- More than one year, are entitled to capital gains treatment on the growth (long-term capital gains property is subject to the 30% deduction limit and the value of the gift and the calculation of the deduction are based upon fair market value).
- Less than one year, are considered ordinary income property (the deduction would be based upon the lower of cost basis or fair market value; ordinary income property is subject to the 50% deduction limit).

Artwork

Individuals may also wish to donate artwork, although there are certain guidelines that the donor must follow in order to qualify for the tax deduction. These guidelines pertain to:

- The period of time that the donor has owned the artwork.
- The charity receiving the donation.
- How the donation will be used.

An appraisal is ordinarily required.

Retirement plans

Many financially successful individuals find themselves in a position where they don't need some or all of the retirement assets that they have accumulated. If you were to leave your retirement plan assets to individual beneficiaries at your death, these assets could be depleted by as much as 75% by income and estate taxes, if you have a taxable estate, leaving very little inheritance for your heirs. Using retirement assets and IRAs for testamentary charitable giving may avoid this erosion, making them the most tax-efficient assets to donate to charity at death because of the charitable estate tax deductions that may be available.

For married couples, spousal consent is required to change the beneficiary designation of a qualified retirement plan (e.g., profit sharing/401(k) plans, defined benefit plans, and defined contribution plans) to someone other than the spouse. That rule does not apply to IRAs.

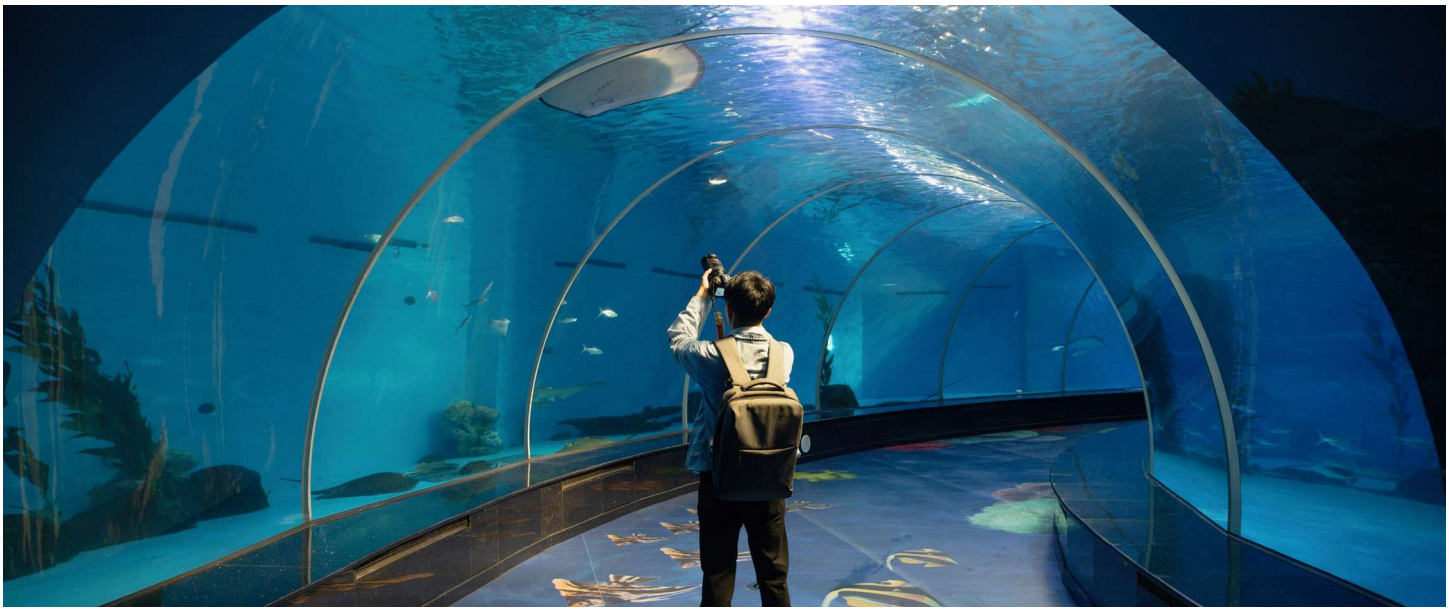
Life insurance

The use of life insurance in charitable giving is one of the most overlooked methods for donors to make an impact on the community and society.

There are generally four common methods for using life insurance as a charitable giving vehicle:

1. Naming a charity as the beneficiary of your group term life insurance.
2. Naming a charity as the beneficiary of your individually owned life insurance.
3. Giving an existing policy that you may no longer need for your own purposes to a charity.
4. Giving money to a charity so that a charity may purchase insurance on your life — and continuing to make the premium payments over time through additional charitable gifts.

Depending upon the strategy used, there may also be tax deductions available. Gifts of money to the charity to pay ongoing premiums that may still be necessary may also be deductible.



More complex charitable giving strategies

While an outright gift may result in the greatest tax impact for you, that strategy may not meet all of your different objectives. Consequently, there are other charitable giving strategies that you can consider, including:

- Private foundations
- Donor Advised Funds
- Charitable Remainder Trusts
- Charitable Lead Trusts
- Charitable Gift Annuities
- Pooled Income Funds
- Gifts through life estates



A private foundation is simply a family-created, funded, and controlled charitable organization. They are often created to convey the interests, passions, and values of a family to the community and society.

Private foundations

Most people, when they hear the term "private foundation" think of wealthy, well-known families, such as the Rockefellers and the Mellons — or perhaps renowned individuals, such as Bill Gates, Ted Turner, or Warren Buffett. Private foundations are often thought to be a charitable planning tool for the very wealthy; however, today, because of technology and specialized administration companies, private foundations can be created and reasonably operated with initial contributions that are as low as $100,000 to $250,000.

Private foundations are not required to distribute all of their funds each year — although they must distribute at least 5%. The possibility of a foundation's longevity allows you, as the foundation creator, to actively engage with children, grandchildren, and other generations in a family activity — running the foundation.

Donor Advised Funds

For a smaller initial contribution (as little as $5,000 to $20,000), there may be a more efficient and less costly alternative than a private foundation — such as the Donor Advised Fund (DAF). A DAF can have many of the same characteristics and attributes as a private foundation, but at a lower cost. The trade-off is in flexibility and control.

Donor Advised Funds are funds created by community organizations or certain financial institutions that allow your contributions to be accumulated in the fund instead of being immediately distributed to a charity. Unlike a private foundation, there is no 5% minimum distribution requirement. The fund may invest your contributions in various securities and other investments.

- You may "advise" the DAF on the investment strategy for the contribution.
- When you deem it appropriate, you may "advise" the DAF to make distributions from the fund to a specific charity.
- The distribution does not have to happen in the year in which the donation is made.

This has the effect of accumulating and growing your contributions over a period of time so that when the distribution is made, your "gift" to the specific charity may be larger than what it might otherwise have been.

With a DAF, you may get a tax deduction the year that the contribution is made, subject to the adjusted gross income limits previously mentioned.

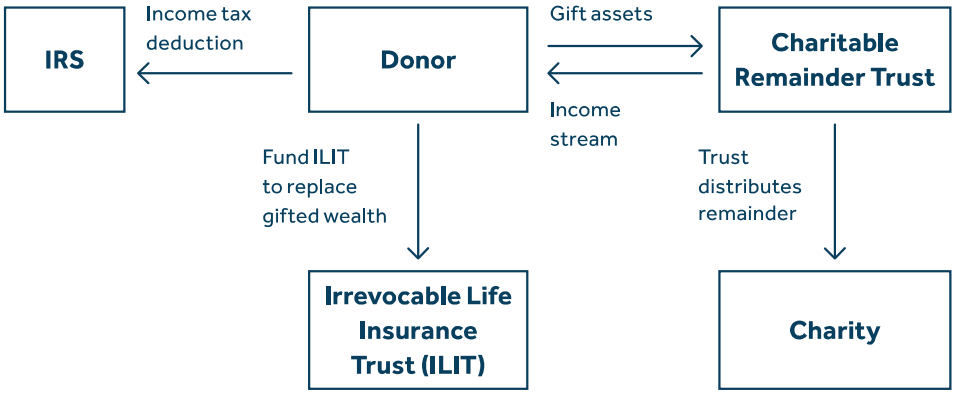
Charitable Remainder Trusts

Charitable Remainder Trusts (CRTs) can help you:

- Protect your own financial and cash flow needs with current income.
- Contribute to charity.
- Reduce or avoid capital gains taxes.
- Obtain a tax deduction for additional tax planning purposes.

The CRT can achieve these goals by creating a "split interest" in the property. One portion of the interest is the income generated by the trust for your benefit (the "income interest"), and the "remainder interest" is the principal remaining when the term of the CRT ends and the income stream ends. This remainder interest is for the benefit of the charity.

Here's how CRTs generally work. Note that there are several variations of CRTs which are not discussed in this brochure.

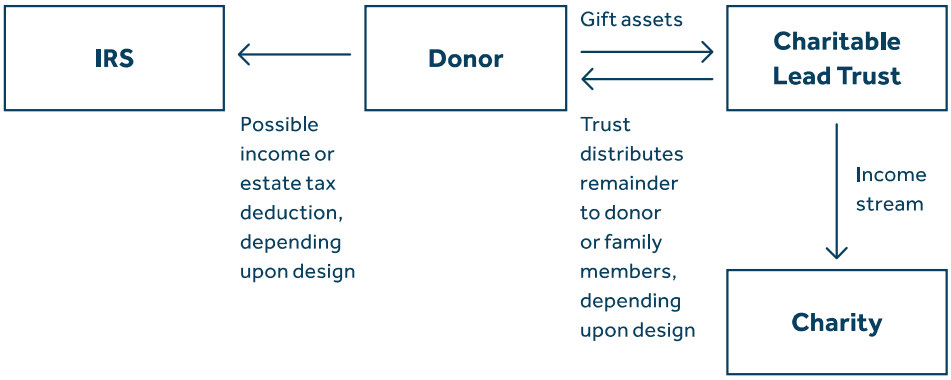


- Charitable Remainder Trusts are irrevocable trusts that are created with the help of an estate planning attorney.
- The trust will pay out a stream of income (the "income interest") to the donor or the trust beneficiaries that he or she designates, for the term of the trust.
- At the end of the term, whatever remains in the trust (the "remainder interest") goes to the charity designated in the trust document.

Charitable Lead Trusts

Charitable Lead Trusts (CLTs) are also considered split interest trusts like CRTs — but they are often described as the reverse of a CRT. A CLT provides the charity with the income stream, but the remainder comes back to either yourself or another designated beneficiary, such as a family member.

Here's how the CLT generally works. Note, however, that like the CRT, there are several variations not discussed in this brochure. CLTs are commonly used during life and at death.



A CLT created during life may or may not qualify for a charitable deduction for income tax purposes, depending upon how the CLT is structured. If you would like the remainder interest to be passed on to your children or other family members, then you may not be entitled to a deduction. However, the remainder interest going to the children or other family members may be treated as a taxable gift by you. A CLT is often used at death to obtain a charitable estate tax deduction that may reduce or eliminate any estate taxes due.

Charitable Gift Annuities

In this arrangement, you would deal directly with the charity. Cash or other assets are given to the charity in return for an income stream from the charity for your life or the joint lives of yourself and your spouse. Setting up the Charitable Gift Annuity (CGA) can be simple, convenient, and inexpensive because the charity will already have forms available and an attorney may not typically be needed to implement the CGA. Also, most charities will set the annuity income stream by utilizing rates suggested by the American Council on Gift Annuities.

The amount of the income tax charitable deduction in this case will be the difference between the fair market value of the donated property and the discounted present value of the annuity. A portion of each annuity payment represents a return of principal and another portion represents ordinary income. If the property donated is appreciated property, a portion of the annuity payment will also be treated as a capital gain to the annuitant.

The commencement of the annuity can be deferred and that will also impact the amount of the charitable deduction, but it may satisfy a particular need that you may have for timing the income stream.



The biggest disadvantage to setting up a CGA is the fact that you must rely on the charity to fulfill its promise to pay the annuity. The income obligation of the charity cannot be secured. The charity also may not purchase a commercial annuity to make the annuity payments. Unfortunately, it is not uncommon to see charities cease operations.

Pooled Income Funds

The Pooled Income Fund (PIF) is similar to the CGA in that a gift is made in return for a stream of income. Unlike a CGA, where the income stream is based upon a fixed rate, the PIF income stream is based upon investment results.

Here's how a PIF works:

- Similar to a CGA, you deal directly with the charity of your choice.
- The PIF is a trust created and managed by the charity.
- The donation to the charity is held in the trust with all other donations made by other donors like yourself who entered into the PIF with the charity.
- Upon making the donation, you receive a certain number of "units of participation" from the trust.
- Unlike the CRT and the CGA, all of the income stream paid to you by the PIF is treated and taxed as ordinary income.
- Typically, a PIF is used when you want to deal only with a particular charitable organization.
- The biggest downside to contributing to a PIF is the fact that you're relying on the charity's investment management of the pooled contributions and market conditions to achieve a reasonable amount of income to enable it to fulfill its promise to pay its donors.

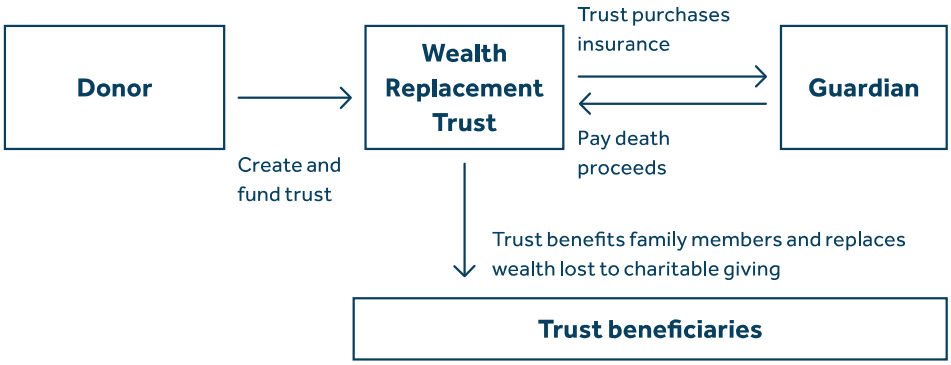
The amount of the income tax charitable deduction is the present value of the charity's remainder interest, like a CRT, subject to the AGI limits previously described.

Gifts through life estates

You may make a gift of your home to a charity while retaining the right to live there for life — a deed with a retained life estate interest. A current income tax deduction will be available based on the present value of the charity's remainder interest calculated on the basis of your life expectancy and depreciation, subject to the adjusted gross income (AGI) limitations previously noted. The charity receives the home upon your death and can sell it without incurring tax on the gain. You retain not only the life estate, but the responsibility of paying real estate taxes on, and maintaining, the property during your lifetime.

Wealth Replacement Trusts: restoring an inheritance

Some people worry because transferring a substantial asset to a charity means their family will inherit less — and they wonder how to replace the donated assets. Life insurance can solve this problem when utilized in a Wealth Replacement Trust WRT. Here's how it works:



- With the help of an estate planning attorney, you set up a WRT for the benefit of your family — and fund it with cash gifts.
- The WRT purchases life insurance on your life.
- Upon your death, the insurance carrier pays the death benefit from the insurance policy, which escapes estate taxes.
- The trust can use the proceeds from the insurance policy to replace the "lost" assets given or left to charity by making distributions to the beneficiaries or using the assets for their benefit.

If you have set up a Charitable Remainder Trust, Charitable Gift Annuity, or Pooled Income Fund, you can use some of the income distributed and do one of two things: fund the WRT with that income — or alternatively, make annual gifts of the income to your children, and have them purchase life insurance on your life using the gifts to pay premiums. The same thing can be done with other assets. For example, you may take distributions or Required Minimum Distributions (RMDs) from your qualified retirement plans and use that money to fund the WRT or to gift to children for the purchase of life insurance.

Upon your death, the death benefit escapes estate tax, is payable to your children, and replaces the "lost" assets left to charity.

Conclusion

Regardless of your charitable intentions, you have numerous options to help you realize your philanthropic goals — while financially protecting your loved ones. This brochure only briefly summarizes some of the more popular options. Be sure to work with a Guardian financial advisor as well as your tax and legal advisor to create the strategy that you feel will work best for your individual situation.

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Learn more about Guardian at guardianlife.com.

1 Giving USA 2023: The Annual Report on Philanthropy for the Year 2022, Giving USA Foundation and the Indiana University, Lilly Family School of Philanthropy

2 The Tax Act of 2017 increased this limit to 60% for charitable cash gifts.

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