TAX STRATEGIES FOR 2021 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 allows retirement account owners to defer 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 EXTENSIONS FOR 2021

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. As part of the Consolidated Appropriations Act, 2021 which was signed on December 27, 2020, certain provisions of the CARES Act that increase incentives for charitable giving were extended through 2021. **These provisions include:**

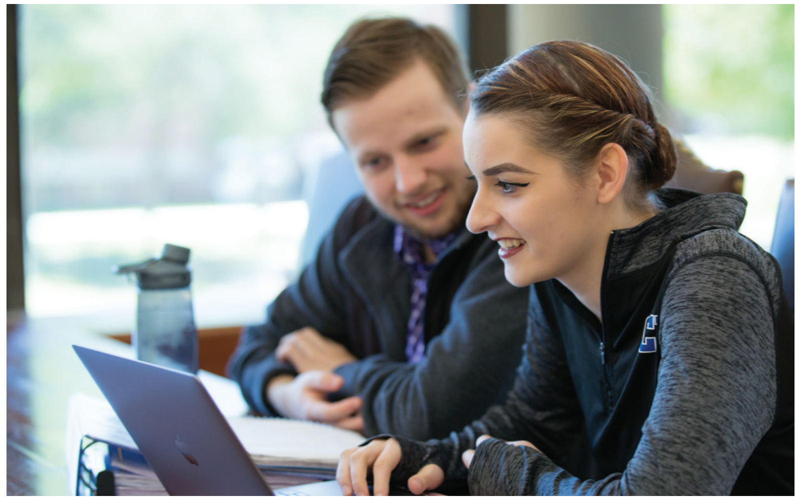
- **Cash Gifts** – The CARES Act enables a taxpayer who takes the standard deduction to still benefit from his or her charitable gifts. **The $300 above-the-line deduction established in 2020 for gifts of cash by a non-itemizer (excluding donor advised funds or supporting organizations) has been extended and expanded to $600 for those filing jointly for the 2021 tax year.**

- **100% Charitable Deduction Limit** – The CARES Act increased the available deduction for qualified contributions to 100% of adjusted gross income (AGI) for certain cash contributions. **This provision was extended to include the 2021 tax year.**

- **Increased Charitable Deduction Limit for Corporations** – The CARES Act increased the percent limitation for charitable deductions for corporations from 10 to 25% of the corporation's taxable income for 2020. **This provision was extended to 2021 by the Consolidated Appropriations Act (2021).**

2021 STANDARD DEDUCTIONS

- **Single Taxpayers:** $12,550
- **Married Couples:** $25,100



2021 TAX BRACKETS

SINGLE TAXPAYERS

Taxable Income	Tax Rate
Up to $9,950	10%
Over $9,951 to $40,525	12%
Over $40,526 to $86,375	22%
Over $86,376 to $164,925	24%
Over $164,926 to $209,425	32%
Over $209,426 to $523,600	35%
Over $523,601	37%

MARRIED COUPLES

Taxable Income	Tax Rate
Up to $19,900	10%
Over $19,901 to $81,050	12%
Over $81,051 to $172,750	22%
Over $172,751 to $329,850	24%
Over $329,851 to $418,850	32%
Over $418,851 to $628,300	35%
Over $628,301	37%

2021 TAX RATES ON LONG-TERM CAPITAL GAINS

SINGLE TAXPAYERS	MARRIED COUPLES	HEADS OF HOUSEHOLD	
Taxable Income Over			Tax Rate
$0	$0	$0	0%
$40,400	$80,800	$54,100	15%
$445,850	$501,600	$473,750	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 2021.

CHARITABLE DONATIONS

- The CARES Act establishes a new $300 charitable deduction available to taxpayers who do not itemize their deductions. This provision has been extended to include the 2021 tax year and expanded to provide for a deduction of up to $600 for those taxpayers filing jointly.
- The CARES Act also increases the available deduction for qualified contributions made in 2020 to 100% of adjusted gross income for certain cash contributions. **This provision has also been extended to include the 2021 tax year.**
- Other charitable deduction limitations remain unchanged under the CARES Act and Consolidated Appropriations Acts.

STRATEGIES FOR CHARITABLE TAX PLANNING

As you consider the impact of recent legislation on your 2021 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 CARES Act presented unique planning opportunities for the 2020 tax year, some of which were extended into 2021. For example, you are able to 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 temporary 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 70½ 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. **This provision was not extended to 2021 and the requirement has been reinstated.** Utilizing IRA Charitable Rollover gifts 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 2021 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 2021. 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 2021 total itemized deductions are now $16,000, which is $3,450 greater than the standard deduction of $12,550. Accordingly, her Bright Society gift will reduce her 2021 taxes by $828 (i.e., $3,450 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 an 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 a Charitable Remainder Trust, 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 2021 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 is required to take a minimum IRA distribution. 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 X 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 how you may establish your legacy gift, please contact our Office of Gift Planning at 405-208-5454. Thank you for all you do for our Oklahoma City University.

Gold Star SOCIETY

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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