Strategic Philanthropy in Motion: Why Accelerate Recurring Gifts Now
Charitable Giving and Proposed Tax Changes
Overview

1. Charitable Tax Deduction Landscape and Scenario Analysis
   – Avery Tucker Fontaine, Head of Strategic Philanthropy

2. Strategies for Reducing Taxable Income vs. Deducting From It
   – Keith Kellum, Senior Wealth Analyst

3. Case Studies and Stories from Successful Families
   – Joan Crain, Global Family Wealth Strategist

4. Summary Comments and Looking Ahead
   – Avery Tucker Fontaine, Head of Strategic Philanthropy
Charitable Tax Deduction Landscape and Scenario Analysis

– Avery Tucker Fontaine, *Head of Strategic Philanthropy*
Scenario 1: Why Give Now vs. Later

A married household filing jointly with $1 million in AGI gifts $300K of stock rather than cash to their favorite charity. The donor household saves more by giving stock because they avoid paying capital gains tax in addition to the income tax savings.

**Cash Gift**
- Value of Cash Gift: $300,000
- Income Tax Savings: $118,800
- Capital Gains Tax Savings: —
- Total Value of Cash Gift: $418,800

**Stock Gift**
- Value of Stock Gift: $300,000
- Income Tax Savings: $118,800
- Capital Gains Tax Savings: $45,000
- Total Value of Stock Gift: $463,800

**Benefit:** $45,000
Scenario 1: Why Give Now vs. Later

Under the current administration’s proposal, the top income tax bracket would be reduced from 39.6% to 33%. The administration has also floated the idea of capping a joint taxpayer’s itemized deductions to $200,000\(^1\). In this illustration, the cap would further limit both the income and the capital gains tax savings.

<table>
<thead>
<tr>
<th></th>
<th>Under Current Law</th>
<th>33% Top Rate</th>
<th>With Cap on Deductions</th>
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<tbody>
<tr>
<td>Value of Cash Gift</td>
<td>Path 1</td>
<td>Path 2</td>
<td>Path 3</td>
</tr>
<tr>
<td>Income Tax Savings</td>
<td>Path 1</td>
<td>Path 2</td>
<td>Path 3</td>
</tr>
<tr>
<td>Capital Gains Tax Savings</td>
<td>Path 1</td>
<td>Path 2</td>
<td>Path 3</td>
</tr>
<tr>
<td>Missed Value</td>
<td>Path 1</td>
<td>Path 2</td>
<td>Path 3</td>
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<thead>
<tr>
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<th>Cash Gift</th>
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<tr>
<td>Value of Gift:</td>
<td>$300,000</td>
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<td>Income Tax Savings:</td>
<td>$118,800</td>
<td>$118,800</td>
<td>$99,000</td>
<td>$66,000</td>
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<td>Capital Gains Tax Savings:</td>
<td>—</td>
<td>$45,000</td>
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<tr>
<td>Total Value of Gift:</td>
<td>$418,800</td>
<td>$463,800</td>
<td>$444,000</td>
<td>$411,000</td>
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**Benefit:**

<table>
<thead>
<tr>
<th>Path 1</th>
<th>Path 2</th>
<th>Path 3</th>
<th>Path 4</th>
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<tbody>
<tr>
<td>$45,000</td>
<td>$(19,800)</td>
<td>$(52,800)</td>
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\(^1\) Proposal to cap itemized deductions was not in the recent summary proposals, but at this time we assume everything is on the table for negotiations.
Scenario 2: Accelerate a Multi-Year Gift

A married household filing jointly with at least $4 million in AGI gifts $300,000 of stock rather than cash to their favorite charity each year for four consecutive years. The donor saves more by front loading the full gift of $1.2 million in 2017 and by giving stock instead of cash to avoid capital gains tax.

### Cash Gift
- Value of Cash Gift: $1,200,000
- Income Tax Savings: $475,200
- Capital Gains Tax Savings: —
- Total Value of Cash Gift: $1,675,200

### Stock Gift
- Value of Stock Gift: $1,200,000
- Income Tax Savings: $475,200
- Capital Gains Tax Savings: $180,000
- Total Value of Stock Gift: $1,855,200

**Benefit:** $180,000
Scenario 2: Accelerate a Multi-Year Gift

Under the current administration’s proposal, the top income tax bracket would be reduced from 39.6% to 33%. The administration has also floated the idea of capping a joint taxpayer’s itemized deductions to $200,000\(^1\). In this illustration, the cap would further limit both the income and the capital gains tax savings.

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<tr>
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<td>$1,200,000</td>
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<td>$1,200,000</td>
</tr>
<tr>
<td><strong>Income Tax Savings</strong>:</td>
<td>$475,200</td>
<td>$475,200</td>
<td>$415,800</td>
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<td><strong>Capital Gains Tax Savings</strong>:</td>
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<td><strong>Total Value of Gift</strong>:</td>
<td>$1,675,200</td>
<td>$1,855,200</td>
<td>$1,795,800</td>
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</tbody>
</table>

**Benefit:** $180,000 ($59,400) ($158,400)

\(^1\) Proposal to cap itemized deductions was not in the recent summary proposals, but at this time we assume everything is on the table for negotiations.
Strategies for Reducing Taxable Income vs. Deducting From It

- Keith D. Kellum, CTFA, CFP®, Senior Wealth Analyst
Reducing Taxable Income vs. Deducting
Advantages and Planning Strategies

Advantages:
• Many phase-outs for deductions and tax benefits are based on AGI
• Lowers marginal income and capital gains tax brackets

Planning:
• Gifting Assets, Not Cash
  — Effectively “give away” tax liability of gain

• Qualified Charitable Distributions from IRAs
  — Now permanent, up to $100,000 each year per donor
  — Excluded from income when paid directly to charity
  — Must be 70 ½ or older

• Charitable Lead Trusts
  — Pay charitable beneficiaries for life or a term of years
  — Non-charitable beneficiaries, such a family members, may receive remainder interest
Reducing Taxable Income vs. Deducting
Sample Charitable Lead Annuity Trust

Assumptions
Gift Amount: $10,000,000
Gift Date: 10/2017
Applicable Federal Rate (§7520): 2.20%
Growth Rate: 6.00%
Payment Rate: Annual
Term: 20 Years

Benefits
Taxable Value of Gift To Family: $1,979,900
Final Projected Value of Gift to Family: $13,678,559
Value of Gift to Charity: $10,000,000

Illustration

<table>
<thead>
<tr>
<th>Year</th>
<th>Beginning Value</th>
<th>6% Growth</th>
<th>Charitable Gift</th>
<th>Ending Value</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>$10,000,000</td>
<td>$600,000</td>
<td>$500,000</td>
<td>$10,100,000</td>
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<tr>
<td>2</td>
<td>$10,100,000</td>
<td>$606,000</td>
<td>$500,000</td>
<td>$10,206,000</td>
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<tr>
<td>3</td>
<td>$10,206,000</td>
<td>$612,360</td>
<td>$500,000</td>
<td>$10,318,360</td>
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<tr>
<td>4-17</td>
<td>...............</td>
<td>...........</td>
<td>...............</td>
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<tr>
<td>18</td>
<td>$12,821,288</td>
<td>$769,277</td>
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<td>19</td>
<td>$13,090,565</td>
<td>$785,434</td>
<td>$500,000</td>
<td>$13,375,999</td>
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<tr>
<td>20</td>
<td>$13,375,999</td>
<td>$802,560</td>
<td>$500,000</td>
<td>$13,678,559</td>
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<tr>
<td></td>
<td>$10,000,000</td>
<td></td>
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Case Studies and Stories from Successful Families

- Joan K. Crain, TEP, CTFA, CFP®, Global Family Wealth Strategist
“Paradoxically, families often learn more about long-term wealth preservation through the process of learning to give away than by the process of learning to accumulate and spend.”

-James E. Hughes Jr.
Philanthropy & Family Values
Benefits to Family: Coming Together

Philanthropy is an ideal tool to:
  • Establish family dialogue
  • Introduce process, governance, and structures
    — Non-threatening
  • Involve all generations
    — Nobody is too old or too young to participate in a meaningful way

Group decision making with money already set aside for charity
Philanthropy & Family Values
Enjoying the Process of Gifting

“A test drive with someone else’s money but our values.”

-James E. Hughes Jr.
Summary Comments and Looking Ahead

– Avery Tucker Fontaine, *Head of Strategic Philanthropy*
Considerations & Next Steps

Appreciated stock is better than cash gifts

Under the proposed changes, it’s better to give stock in 2017 than in 2018

A gift of qualified, appreciated stock now can reduce estate taxes later

- If valuations seem high to you now, consider gifting qualified appreciated stock.
- Remember, charitable tax deductions can carryover for 5 years.
- To frontload a multi-year gift in the appropriate charitable vehicle in 2017 protects the value of the gift over the long term.
- The loss of market earnings on appreciated stock with a multi-year gift may outpace a 6.6% loss if the top tax rate changes in 2018 from 39.6% to 33%.
- Multiple solution options depending on circumstances: Private Foundations, Charitable Trusts, Donor Advised Funds
- Donor Advised Funds allow flexibility: Gift qualified appreciated stock in 2017, take the full, allowable tax benefit immediately, and make grant decisions later because there is no annual distribution requirement.

Make the gift in 2017—decide later what to do with it
Questions
Survey – Charitable Giving & Proposed Tax Change – October 25, 2017

Your opinions and suggestions are extremely valuable to us. Please take a few minutes to respond to these questions so that we may improve future seminars. Thank you for your time and comments.

1. How useful was the seminar to you? Please circle one.
   - not useful
   - somewhat useful
   - very useful
   1  2  3  4  5

2. Was the objective of the seminar met?
   - no
   - not sure
   - yes

3. The presentation and presentation materials were:
   - too detailed
   - not detailed enough
   - appropriate

4. The presentation was:
   - too long
   - too short
   - the right length

5. The presentation skills of the presenters were:
   - Poor
   - fair
   - excellent
   1  2  3  4  5

6. Would you recommend this seminar to an associate or friend?
   - no
   - not sure
   - yes

7. The most convenient time for a seminar is:
   - morning
   - mid-day
   - evening

8. The teleconference method of delivery was:
   - Poor
   - fair
   - excellent
   1  2  3  4  5

9. What other seminar topics are of interest to you?

10. Any additional comments?

11. I am interested in receiving more information about wealth management strategies. Email:

12. The following person might also be interested in receiving information about wealth management strategies. Email:

MANDATORY ATTENDANCE RECORD FOR CONTINUING EDUCATION CREDIT
Please complete this section of the form if you are interested in obtaining CE Credit. Approval is pending for CFPs, CTFAs and attorneys in applicable states.

Print Full Name Clearly_______________________________________________________________________

Firm Name with Complete Address___________________________________________________

__________________________________________________________________________________________

Email Address______________________________________________________________________________

Type of Credit, please circle: CTFA, CFP, CPA, Legal

CFPs MUST give the last 4 digits of Social Security # ______________________________________________

State & Bar Number Mandatory for Legal Credit __________________________________________________

Please return this form to yoani.fuentes@bnymellon.com
In modeling Scenario 1, we assumed the gift is made to a public charity by a married household filing jointly with sufficient adjusted gross income for the gift to meet minimum charitable deduction requirements. Pease limitations could have significant impact; please contact your tax advisor. In calculating the Capital Gains Tax savings, we assume a cost basis of $75,000. Income tax savings were calculated at the taxpayers’ marginal bracket.

In modeling Scenario 2, we assumed the gift is made to a public charity by a married household filing jointly with at least the same adjusted gross income as Scenario 1 over a four year period assuming the charitable deductibility is carried over through the projection period. Pease limitations could have significant impact; please contact your tax advisor. In calculating the Capital Gains Tax savings, we assume a cost basis of $300,000. Income tax savings are calculated at the taxpayers’ marginal bracket.

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