APOLLON

Charitable Planning

Disclosure

This report is intended for the exclusive use of clients or prospective clients of Apollon Wealth Management, LLC (Apollon). The information contained herein is intended for the recipient, is confidential and may not be disseminated or distributed to any other person without the prior approval of Apollon. Any dissemination or distribution is strictly prohibited. Information has been obtained from a variety of sources believed to be reliable though not independently verified. Any forecasts represent future expectations and actual returns; volatilities and correlations will differ from forecasts. This report does not represent a specific investment recommendation. Please consult with your advisor, attorney and accountant, as appropriate, regarding specific advice. Past performance does not indicate future performance and there is a possibility of a loss.

Accelerated Charitable Giving

Planning Tip

The charitable giving landscape changed substantially in 2018, as the Tax Cut and Jobs Act nearly doubled the standard deduction but capped the state and local tax (SALT) deduction at $10,000 and eliminated “miscellaneous two percent itemized deductions.” Due to the new changes, taxpayers should evaluate whether or not a portion of charitable giving would produce a tax benefit..

Taxpayers might benefit from **accelerating (“bunching”) charitable gifts** to maximize itemized deductions in a single tax year while taking the standard deduction in other years. This planning strategy can be particularly effective for charitably-inclined taxpayers without deductible medical expenses (> 7.5% of Adjusted Gross Income) and with no/minimal mortgage interest.

Scenario #1: Married Filing Jointly, Level Annual Charitable Giving

	2023–2026 (Each Year)	2023–2026 TOTAL
Mortgage Interest	$9,000	**$36,000**
State & Local Tax (SALT)	$10,000	**$40,000**
Charitable Gifts	$30,000	**$120,000**
Itemized Deduction Total	**$49,000**	**$196,000**
Greater of: **Itemized Deductions *or* $27,700 Standard Deduction**	**$49,000**	**$196,000**

Scenario #2: Married Filing Jointly, Accelerated Charitable Giving

	2023	2024–2026 (Each Year)	2023–2026 TOTAL
Mortgage Interest	$9,000	$9,000	**$36,000**
State & Local Tax (SALT)	$10,000	$10,000	**$40,000**
Charitable Gifts	$120,000	$0	**$120,000**
Itemized Deduction Total	**$139,000**	**$19,000**	**$196,000**
Greater of: **Itemized Deductions *or* $27,700 Standard Deduction**	**$139,000**	**$27,700**	**$222,100**

In the example above, the couple’s itemized deductions before charitable gifts total $19,000 (mortgage interest + SALT). Since the married filing jointly (MFJ) standard deduction is $27,700, the first $8,700 of charitables will not produce a tax benefit.

In Scenario #2, the couple accelerates charitable giving into a single year (2022) to maximize itemized deductions and takes the standard deduction in subsequent years (2024-2026). **The composition of itemized deductions is the *same* under both scenarios, yet Scenario #2 produces a greater cumulative tax deduction of $26,100 over the four-year period.**

Several legislative proposals have aimed to increase the current $10,000 cap for the state and local tax (‘SALT’) deduction, though these proposals have yet to draw enough bipartisan support to pass both houses of Congress.

Example is for illustrative purposes only.
Source: The Tax Foundation – “2023 Tax Brackets” (October 18, 2022)

Charitable Giving Vehicles

Donor-Advised Funds vs. Private Foundations

There are numerous considerations to evaluate whether a donor-advised fund or a private foundation (or a combination) might be an effective charitable giving vehicle. The table below provides an abbreviated comparison.

	Donor-Advised Fund	Private Foundation
Start-up Time	Immediate	May take several weeks or months
Start-up Costs	None	Legal and other fees
Initial Contribution/ Minimum	Varies by sponsor, but often as low as $5,000 - $10,000	No minimum, though due to start-up and ongoing administrative expenses, a larger starting balance (several million dollars) is generally advisable
Minimum Grant to Charity	Varies by sponsor, but often as low as $50-$100	No minimum
Ability to Give Anonymously	Yes, donors can choose whether to give publicly or anonymously	No, IRS Form 990 must report gifts
Ongoing Administrative Expenses	Varies by sponsor, but typically starts around 0.60%	Various tax and other expenses
Underlying Investment Expenses	Varies by sponsor, with some investment options as low as 0.03%	Varies based on investments chosen & advisor
Tax Deduction for Gifts	Up to 60% of AGI for cash gifts Up to 30% of AGI for long-term securities	Up to 30% of AGI for cash gifts Up to 20% of AGI for long-term securities
Annual Distribution Requirement	None	IRS requires minimum 5% annual distribution based on prior year’s net average assets
Tax Reporting	Handled by the sponsor; donors do not report charitable grant activity	Responsible for tax filings and must annually file IRS Form 990
Excise Taxes	None	1.39% of net investment income

For illustrative purposes only.

Additional Charitable Giving Strategies

	Charitable Lead Trusts (CLT)	Charitable Remainder Trust (CRT)	Charitable Gift Annuity (CGA)
What is it?	An irrevocable trust established for charitable purposes. During the trust term, income passes to the designated charity/charities. At the end of the trust term, the remaining assets transfer back to the donor or to specified beneficiaries.	An irrevocable trust established for charitable purposes. During the trust term, income passes to the donor or designated beneficiary (per the IRS, the annual annuity must be at least 5% but not more than 50% of the trust's assets). At the end of the trust term, the remaining assets transfer to the designated charity/charities.	A lifelong contract between a nonprofit and a donor or couple. The donor makes an irrevocable gift to 501(c)(3) qualified public charity, and, in return, the charity agrees to pay the annuitant(s) lifetime income. The maximum number of annuitants is two. Not all charities provide charitable gift annuities.
Benefits	Under a ***non-grantor CLT***, depending on the amount of trust growth, remainder assets may pass to beneficiaries free of estate or gift tax. Under a ***grantor CLT***, the grantor receives an immediate tax deduction for the present value of the future payments to be made to charity.	Donor receives a partial income tax deduction depending on trust type and term, projected income payments and IRS interest rates. Can convert appreciated assets into current income, without triggering capital gains taxes.	Donor receives a charitable tax deduction for the value of the original gift, less the present value of future annuity payments. Potential for a portion of annuity payments to be treated as tax-free income.
Taxation	Under a non-grantor CLT, the trust is considered the owner and pays tax on undistributed net income; the trust can claim an unlimited charitable deduction for charitable distributions. Under a grantor CLT, the grantor pays the tax on trust income.	The CRT's investment income is exempt from tax, which provides an opportunity to sell appreciated securities without generating capital gains tax. However, the named income beneficiary will pay income tax on the type of income received.	For gifts of cash, annuity payments will be treated as a split among ordinary income and tax-free income. For gifts of appreciated securities, annuity payments will be treated as a split among ordinary income, capital gains and tax-free income.
Who might benefit from this strategy?	Charitably inclined individuals who want to provide current support to charity but also want any remaining assets to pass to beneficiaries.	Charitably inclined individuals who want an immediate charitable tax deduction and who also have a need/desire for current income.	Charitably inclined individuals who want an immediate charitable tax deduction and current income but may have insufficient assets to fund a CRT.

APOLLON

Apollon Wealth Management, LLC (Apollon) is a registered investment advisor. This document is intended for the exclusive use of clients or prospective clients of Apollon. Any dissemination or distribution is strictly prohibited. Information provided in this document is for informational and/or educational purposes only and is not, in any way, to be considered investment advice nor a recommendation of any investment product or service. Advice may only be provided after entering into an engagement agreement and providing Apollon with all requested background and account information. Please visit our website for other important disclosures.
www.apollonwealthmanagement.com

February 2023