

How to give more to your favorite charity and pay less in taxes:

Three tax tools every Iowa lawyer should know

By Gordon Fischer, JD, CAP®



The November 2014 issue of The Iowa Lawyer was inspiring. Several attorneys were featured for giving to the nonprofit organizations they care about most, donating vast amounts of time, talent and treasure. ISBA President Joe Feller wrote eloquently about Iowa’s “culture of service and giving.” Iowa lawyers — and their clients — are generous to charities. One way to increase charitable giving is to recognize there are significant tax savings for outright gifts made during a lifetime.

Give now, rather than later

It’s been said, “You should be giving while you are living, so you’re knowing where it’s going.” Many clients intend to donate to charity eventually, usually at death through their will and estate plan. But why not give now? Clients can have more say about gifts while alive, and also feel the joy that comes with helping worthy causes. There are also positive tax benefits for giving now rather than later.

Double federal tax benefit

Gifts of long-term capital assets, such as stock, real estate and farmland, may receive a double federal tax benefit. First, donors can receive an immediate charitable deduction off federal income tax, equal to the fair market value of the stock, real estate, or farmland. Second, assuming the donor owned the asset for more than one year, when the asset is donated, the donor can avoid long-term capital gain taxes which would have been owed if the asset was sold.

Let’s look at a concrete example to make this clearer. Pat owns farmland with a fair market value of \$100,000. She wants to use the farmland to help her favorite causes. Which would be better for Pat — to sell the farmland and donate the cash, or give the farmland directly to her favorite charities? Assume the farmland was originally purchased at \$20,000 (basis), Pat’s income tax rate is 39.6 percent, and her capital gains tax rate is 20 percent.

Donating cash versus donating long-term capital gain assets, such as farmland	Donating cash proceeds after sale of farmland	Donating farmland
Value of Gift	\$100,000	\$100,000
Federal income tax deduction	(\$39,600)	(\$39,600)
Federal capital gains tax savings	\$0	(\$16,000)
Out of Pocket Cost of Gift	\$60,400	\$44,400

Note: above table is for illustrative purposes only. Only your own financial or tax advisor can advise in these matters.

Again, a gift of long-term capital assets, such as stocks, real estate, or farmland, made during lifetime, can be doubly beneficial. The donor can receive a federal income tax charitable deduction equal to the fair market value of the asset. The donor can also avoid capital gains tax. In Iowa, however, there is even more potential tax benefit. Donors can receive a 25 percent state tax credit for gifts made during lifetime, lowering the after-tax cost of charitable gifts even further.

Endow Iowa Tax Credit - 25 percent Iowa tax credit

Under the Endow Iowa Tax Credit program, gifts made during lifetime can be eligible for a 25 percent tax credit. There are three requirements to qualify. First, the gift must be given to, or received by, a qualified Iowa community foundation (there’s a local community foundation near you). Second, the gift must be made to an Iowa charity. Third, the gift must be endowed — that is, a permanent gift. Under Endow Iowa, no more than five percent of the gift can be granted each year — the rest is held by, and invested by, your local community foundation. Clearly, this final requirement is a major restriction. Still, in exchange for a 25 percent state tax credit, it must be seriously considered by Iowa lawyers and donors.

Let’s look again at the case of Pat, who is donating farmland per the table above. If Pat makes an Endow Iowa qualifying gift, the tax savings are very dramatic:

Tax benefits of donating long-term capital gain asset with Endow Iowa Tax Credit	
Value of Gift	\$100,000
Federal income tax charitable deduction	(\$39,600)
Federal capital gains tax savings	(\$16,000)
Endow Iowa Tax Credit	(\$25,000)
Out of Pocket Cost of Gift	\$19,400

Note: above table is for illustrative purposes only. Only your own financial or tax advisor can advise in these matters.

Note well Pat’s significant tax savings. In this scenario, by giving farmland during lifetime, Pat receives \$39,600 as a federal charitable deduction, avoids \$16,000 of capital gains taxes, and gains a state tax credit for \$25,000, for a total tax savings of \$80,600. Put another way, Pat made a gift of \$100,000 to her favorite charity, but the out of pocket cost of the gift to her was less than \$20,000.

This is a great deal for Pat and a great deal for Pat's favorite causes. But could anything be wrong with this scenario? There are four areas of caution.

Cautionary notes

The federal income tax charitable deduction is capped. Generally, the federal charitable deduction for gifts of stock, real estate and farmland is limited to 30 percent of adjusted gross income. A taxpayer may, however, carry forward any unused deduction amount for an addi-

tional five years.

Additionally, records are required to obtain a federal income tax charitable deduction. The more the charitable deduction, the more detailed the recording requirements. For example, to receive a charitable deduction for gifts of more than \$5,000, you need a "qualified appraisal" by a "qualified appraiser," two terms with very specific meanings to the IRS. You need to engage the right professionals to be sure all requirements are met.

Endow Iowa Tax Credits are also capped — both statewide and per individual. Iowa sets aside a pool of money for Endow Iowa Tax Credits, and it's available on a first-come, first-served basis. In 2014, approximately \$6 million in tax credits was available annually through Endow Iowa. So encourage clients to submit applications now, as tax credits often run out towards year end. Endow Iowa also has a cap per individual. Tax credits of 25 percent of the gifted amount are limited to \$300,000 in tax credits per individual for a gift of \$1.2 million, or \$600,000 in tax credits per couple for a gift of \$2.4 million.

Finally, all individuals, families, businesses and farms are unique and have unique tax issues. This article is presented for informational purposes only, not as tax advice or legal advice. Consult a tax professional for personal advice.

Gordon Fischer Law Firm, P.C. is dedicated to promoting and maximizing charitable giving in Iowa. Gordon can be reached by phone at 515-371-6077; by email at gordon@gordonfischerlawfirm.com; and through his website at www.gordonfischerlawfirm.com.



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Many Facts, Many Numbers.

During a divorce, determining the value of a spouse's business can be problematic at best. Initially, each side may have thoughts on what the company is worth — and usually, the values are not close.

When you need to know the real value of a business in a divorce case, TD&T CPAs and Advisors has the expertise you require. With our investigative accounting services, we can analyze a company's financial data and provide the hard number your case needs.

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