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Q&A from Tax Update: Never a Dull Moment in Taxlandia
Presented by: Novena Weaver, CPA, MST, McDonald Jacobs

What interest rate(s) are you currently offering for contributions?

Answer: *The rates offered for gifts that pay income back to the donor (or your beneficiaries), depend on several factors, including age of the income recipient, whether payments are fixed and guaranteed or variable, and when the donor wants payments to start.*

OHSU's fixed, guaranteed rates are set by the American Council on Gift Annuities. Today's fixed rates for an annuitant who is age 72 are 6.6% if payments begin immediately and 7.0% if payments are deferred for 5 years. OHSUF Gift Planning can provide a custom illustration laying out the many options!

For donors seeking a plan that pays more than than two beneficiaries, younger beneficiaries, or variable payment options that track with the markets, we offer charitable remainder unitrusts, which typically pay income at a rate of 5.0-6.0% although higher rates are available as long as the projected charitable remainder interest falls with eligibility standards (set by US tax code).

These payment rates are annual figures. In addition, OHSU provides expert fiduciary and investment management oversight and handles the annual tax preparation (K-1s) for charitable remainder trusts and accounting (1099s) for gift annuities. Please contact the Foundation's Gift Planning Department for a no-obligation, custom illustration for you and your family.

Could you please clarify the "new" capital gains rate: is it taxation for $400,000 of gains or $400,000 of income generates a "higher" rate?

Answer: *For 2022, capital gains tax rates are dependent upon Taxable Income as shown in the following chart for each tax filing status.*

2022 Long-Term Capital Gains Tax Rates

Tax filing status	0% rate	15% rate	20% rate
Single	Taxable income of up to $41,675	$41,675 to $459,750	Over $459,750
Married filing jointly	Taxable income of up to $83,350	$83,350 to $517,200	Over $517,200
Married filing separately	Taxable income of up to $41,675	$41,675 to $258,600	Over $258,600
Head of household	Taxable income of up to $55,800	$55,800 to $488,500	Over $488,500

Is tuition not deductible if the recipient is not a relative or dependent?

Answer: *The income tax deduction for tuition and fees expired on December 31, 2020; taxpayers who paid qualified tuition and fees in 2018, 2019, and 2020 could claim a maximum deduction of $4,000 each year. However, a taxpayer did not qualify for the deduction if their modified adjusted gross income was $80,000 (single taxpayer) and $160,000 (married filing joint). Refer to Publication 970-Tax Benefits for Education, on the IRS website at www.irs.gov for further information.*

Our property taxes in Clark County, WA. require half-yearly payments in the year they are charged. Are you saying the Assessor's Office might actually provide assessed values prior to mailing their half yearly assessments? (in Oregon also).

Answer: *A taxpayer can only deduct property taxes that have already been assessed; you cannot deduct anticipated taxes. Check with your county assessor to determine the lien date of the property taxes. Also, note that state and local taxes are capped at $10,000. Contact your tax advisor to determine if bunching of property taxes or other itemized deductions will result in income tax savings.*

How are qualified interest and dividends taxed?

Answer: *<u>Ordinary Dividends:</u> Ordinary dividends are the most common type of distribution from a corporation or a mutual fund. They are paid out of earnings and profits and are ordinary income to you. This means they are not capital gains. You can assume that any dividend you receive on common or preferred stock is an ordinary dividend unless the paying corporation or mutual fund tells you otherwise.*

Ordinary dividends will be shown in box 1a of the Form 1099-DIV you receive.

<u>Qualified Dividends</u>: Qualified dividends are the ordinary dividends subject to the same 0%, 15%, or 20% maximum tax rate that applies to net capital gain. They should be shown in box 1b of the Form 1099-DIV you receive. The maximum rate of tax on qualified dividends is:

- *0% on any amount that otherwise would be taxed at a 10% or 15% rate,*
- *15% on any amount that otherwise would be taxed at rates greater than 15% but less than 37%, and*
- *20% on any amount that otherwise would be taxed at a 37% rate.*

The preferential rates do not apply to all dividends; ask your tax advisor for those dividends not allowed for the preferential rates.

Interest Income: There is not "Qualified Interest"; and there are not preferential income tax rates for interest income.

Which is better? Charitable deduction as a QCD or a charitable gift to be itemized?

Answer: *Most advisors agree that, if you are eligible, a qualified charitable distribution is a more cost-efficient way to give because the distribution bypasses income taxation completely whereas income tax charitable deductions are subject to various limitations and rarely negate 100% of the tax. You should check with your tax advisors to see how the benefits work best for your situation.*

Please comment on the pros and cons of charitable contributions directly from an IRA vs. after tax; any implications for bunching?

Answer: *In addition to the comments at Question 6 above, during a participant's lifetime, only a QCD is NOT subject to income tax at the time of the gift. The wonderful benefit of a QCD is it is during your life, not at your death, meaning you can see how your contribution is benefiting the charitable organization.*

In contrast, a participant should not make a gift of their retirement assets during life, other than a QCD, as the distribution will be subject to Federal and state income tax. Although the contribution may be deductible, the benefit will depend upon the standard deduction vs. itemized deductions of the taxpayer in the year of the contribution, resulting in a smaller benefit for the charitable contribution.

Also, since a qualified charitable distribution is not included in adjusted gross income, the portion of taxable social security benefits is reduced; additionally, since the amount of adjusted gross income is smaller, those itemized deductions (e.g., medical deductions and non-QCD charitable gifts) based on adjusted gross income will have a smaller threshold to meet.

Is an IRA distribution to a special needs trust also not taxed the same as with a qualified charity contribution.

Answer: *Because a special needs trust is not an IRS 501 c (3) organization, it is not a qualified beneficiary for a QCD.*

Discuss how Modified Adjusted Gross Income can affect Medicare Premiums (tax free income can affect Medicare).

Answer: *Please consult your tax advisor.*

Are there other options for using qualified retirement funds to benefit both my heirs and charity?

Answer: *Yes! With the elimination of the "stretch IRA" and requirement for heirs to withdraw 100% of inherited retirement funds within 10 years, many donors have shifted to using a testamentary life income gift whereby the donor names a charity such as OHSU as the beneficiary of their retirement fund(s) and sets up an agreement with the charity to set up a life income gift that will pay their heirs for their lifetime or a term (depending on the ages and number of heirs). When the last heir dies, the remainder goes to charitable use. Contact OHSUF Gift Planning for more information and sample language to share with your advisors.*

As a reminder: this virtual webinar series is not a substitute for financial or tax advice. Please consult with your advisors to see how the information may apply to your situation.