



Taxation Basics for Gift Planners

Presenter: Craig C. Wruck

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Agenda

- Income tax
 - Effective and marginal tax rates
 - Capital gains tax
- After tax cost of giving
- Some changes for 2026 & donor nuts and bolts
- Transfer tax
 - Gift tax
 - Estate tax

Federal Tax System

- Income tax system
 - Income tax – on earned income
 - Capital gains tax – on investment profit
- Transfer tax system
 - Estate taxes – on transfers at death
 - Gift taxes – on gifts during lifetime

Individual Income Tax

Taxable Income	
	Gross Income
Minus	Adjustments to Income
Equals	Adjusted Gross Income (AGI)
Minus	Certain items – including charitable contributions – may be deducted, but usually only if total exceeds the “standard deduction” amount (in 2026: \$32,200 married filing jointly, \$16,100 individual)*
Equals	Taxable Income
*Amounts adjusted for inflation each year	

Note:

Add another \$1,650 for taxpayers over age 65. A married couple, both age 65 filing jointly, has a \$35,500 standard deduction.

Graduated and Progressive Rates

- Rates apply to *taxable* income
- Seven different rates, or “brackets”
- Rates range from 10% to 37%
- *Effective* rate is less than *marginal* rate

Key point:

Charitable deductions reduce taxable income, which saves taxes at the *highest marginal rate*

2026 Income Tax Rates

Rate	Married Filing Jointly	Single
10%	\$1 – \$24,800	\$1 – \$12,400
12%	\$24,801 – \$100,800	\$12,401 – \$50,400
22%	\$100,801 – \$211,400	\$50,401 – \$105,700
24%	\$211,401 – \$403,550	\$105,701 – \$201,775
32%	\$403,551 – \$512,450	\$201,776 – \$256,225
35%	\$512,451 – \$768,700	\$256,226 – \$640,600
37%	\$768,701 and over	\$640,601 and over

Brackets are adjusted annually for inflation

Income Tax Distribution

Marginal Tax Rate	Percent of Returns	Percent of Revenue
0%*	20.2%	0%
10%	14.5%	0.7%
12%	33.6%	9.5%
22%	21.1%	21.2%
24%	7.5%	19.1%
32%	1.1%	5.4%
35%	1.2%	10.3%
37%	0.7%	33.8%

* About 20% of returns paid no income tax due to the Standard Deduction and tax credits.

IRS Statistics of Income
Tax Year 2022

Effective Tax Rate vs Marginal Tax Rate

Taxable income \$250,000, married filing jointly:

Taxable Income	Tax Rate	Tax Due
the first \$24,800	10%	\$2,480
the next \$76,000	12%	\$9,120
the next \$110,600	22%	\$24,332
the last \$38,600	24%	\$9,264
Total: \$250,000		\$45,196

Marginal Tax Rate = 24%

Effective Tax Rate = 18% (\$45k/\$250k)

Capital Gains Tax

- Capital gain: profit on sale of an investment
- Long-term capital gain: held more than one year
 - Taxed at preferential rates: 15% or 20%
- Short-term capital gain: held one year or less
 - Taxed at ordinary income rates: up to 37%

Key point:

No capital gains tax when long-term capital gain property is transferred to charity

Amount of Deduction

- Publicly traded securities: average between the high and low prices on the date of the gift
- Other non-cash gifts: “fair market value” (price arrived at between a willing buyer and a willing seller both having adequate knowledge of the facts and circumstances surrounding the transaction and neither being under any compulsion to complete the transaction)
- More than \$5,000: qualified appraisal required

After-tax cost of a Gift

After-tax Cost of Giving	
	Value Contributed
Minus	Taxes Saved or Avoided
Equals	Cost of Giving

Gift of Cash vs Gift of Securities

Assume a donor in the 24% tax bracket is considering a contribution of \$10,000 either in cash or in appreciated securities with a cost basis of \$2,000 (\$8,000 gain)

	Cash	Securities
Contribution	\$10,000	\$10,000
Income taxes saved	2,400	2,400
Capital gains taxes avoided	- -	1,200
After-tax cost of gift	\$7,600	\$6,400

Remember:

The capital gains tax savings apply even if the donor does not itemize.

New Deduction Limitation: 0.5% Floor

What changed?

- Before: The full contribution value was deductible
- After: Beginning in 2026, only the contribution value in excess of 0.5% of the donor's Contribution Base* will be deductible

* "Contribution Base" is Adjusted Gross Income (AGI) computed without regard to any net operating loss (NOL) carryback

Who's affected?

Any taxpayer who claims an itemized deduction for a charitable contribution

How will they be affected?

They'll have to reduce their total charitable deductions

For most, the reduction will be 0.5% of AGI

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New Deduction Limitation: 35% Cap

What changed?

- Before: Itemized deductions reduced taxable income at donor's highest marginal tax bracket
- After: Beginning in 2026, itemized deductions still reduce taxable income, but dollar value of taxes saved is limited to 35% per dollar deducted

Who's affected?

Only those in the 37% tax bracket – about 0.5% of all filers

Taxable incomes greater than \$640,600 single, \$768,700 joint (in 2026)

How will they be affected?

They'll save 35¢ per dollar contributed instead of 37¢

Maximum Annual Charitable Deduction

- 60% of AGI – maximum deduction for contributions of cash
- 30% of AGI – maximum deduction for contributions of long-term appreciated property deducted at fair market value
- 50% of AGI – maximum deduction for contributions of short-term appreciated property or long-term deducted at cost basis
- 5-year carryover for unused deductions
- Gifts to private foundations subject to lower limits: 30% cash, 20% appreciated property

Quid Pro Quo Reductions

- Amount of deduction is reduced by value of goods or services *made available* as a result of contribution
- Applies to all premiums offered as a result of contribution as well as “benefit” events
- Must be disclosed in solicitation
- Applies if goods or services are offered – *whether or not they are accepted*

New Deduction for Non-itemizers

What changed?

- Before: Non-itemizers received no income tax benefit from their charitable giving
- After: Beginning in 2026, non-itemizers are allowed to deduct contributions up to \$1,000 single and \$2,000 joint, but contributions to DAFs are not deductible

Who's affected?

Any taxpayer who chooses the Standard Deduction

How will they be affected?

Provides an incentive to the 90% of taxpayers who do not itemize

Date of Gift

Year in which the deduction can be taken depends upon date of gift – generally when the donor irrevocably surrenders control of the gift

By mail	Postmark date
Delivered	Date delivered
Credit card	Date charge authorized
Electronic transfer	Date completed by bank
Physical securities	Date delivered in negotiable form
Brokerage account	Date entered into charity's account

Substantiation Requirements

- Donors must have “contemporary written acknowledgement” to substantiate income tax charitable deductions
 - Non-cash gifts
 - \$500 or less – estimate value on Schedule A
 - \$501 through \$5,000 – estimate value, complete Form 8283 explaining valuation methodology*
 - Over \$5,000 – qualified appraisal, complete Form 8283 with charity acknowledgement
- * Deductions over \$500 for contributions of clothing require appraisal

Special Considerations

- Tangible Personal Property – “related use rule” limits deduction to cost basis
- Ordinary Income Property – deduction limited to cost basis
 - Applies to short-term capital gain property
 - Potential trap for artists who contribute their own works
 - Eliminates deduction for most gifts of services
- Consider non-deductible gifts: forego charitable deduction but avoid income tax

Transfer Taxes

- Tax paid by *giver* when something of value is given to someone
- Annual gift exclusion: \$19,000 per individual
- Lifetime exclusion: \$15 million tax-free (in 2026)
 - Cumulative total of lifetime gifts plus gifts at death
 - Unlimited exclusion on transfers to surviving spouse
 - Portability of unused deceased spousal exclusion
- 40% rate on taxable transfers

Transfer Taxes

Up to \$19,000 per year	-	Can be given to each of an unlimited number of individuals (a married couple can give \$38,000)
More than \$19,000 in any one year	-	File a Federal Gift Tax Return and pay 40% tax when cumulative lifetime gifts exceed \$15,000,000*
Up to \$15,000,000* in total lifetime and estate giving	-	No Federal Gift or Estate Tax
More than \$15,000,000*	-	Total value of combined taxable lifetime and estate giving in excess of this amount is taxed at 40%

* Note: The \$15,000,000 exclusion is the threshold for 2026 and is adjusted for inflation each year. The \$19,000 annual exclusion is the threshold for 2026 and is adjusted from time to time (but not necessarily annually).

Transfer Taxes

- *Stepped-up basis* applies to transfers at death: when heirs sell they owe capital gains on appreciation only since date of death
- *Carry-over basis* for gifts during lifetime: when recipient sells they owe capital gains tax based on giver's original cost basis
- Unlimited charitable deduction
- Generation-Skipping Transfer Tax (GST) may apply if recipient is more than 37.5 years younger than giver

State Taxes

- State and Local Tax (“SALT”) deduction
 - Maximum \$40,000 in 2025, increasing 1% annually through 2029, then decreasing to \$10,000 in 2030
 - Phased out for filers with income over \$500,000 joint, \$250,000 single
- Beware of state estate and inheritance taxes – exemptions usually much lower than the \$15 million Federal exemption
 - 11 tax the estate prior to distribution (CT, HI, IL, ME, MA, MN, NY, OR, RI, VT, WA, DC)
 - 4 tax recipient of the inheritance (KY, NE, NJ, PA)
 - 1 taxes both (MD)
 - 34 have no estate or inheritance taxes

Questions?



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Still Have a Question?

Contact: Craig Wruck

E-mail: cwruck@pgcalc.com