



# CHARITABLE GIFT FINANCING FEASIBILITY PROPOSAL

For: **SAMPLE CASE – \$2M AGI**

[Year 2024]

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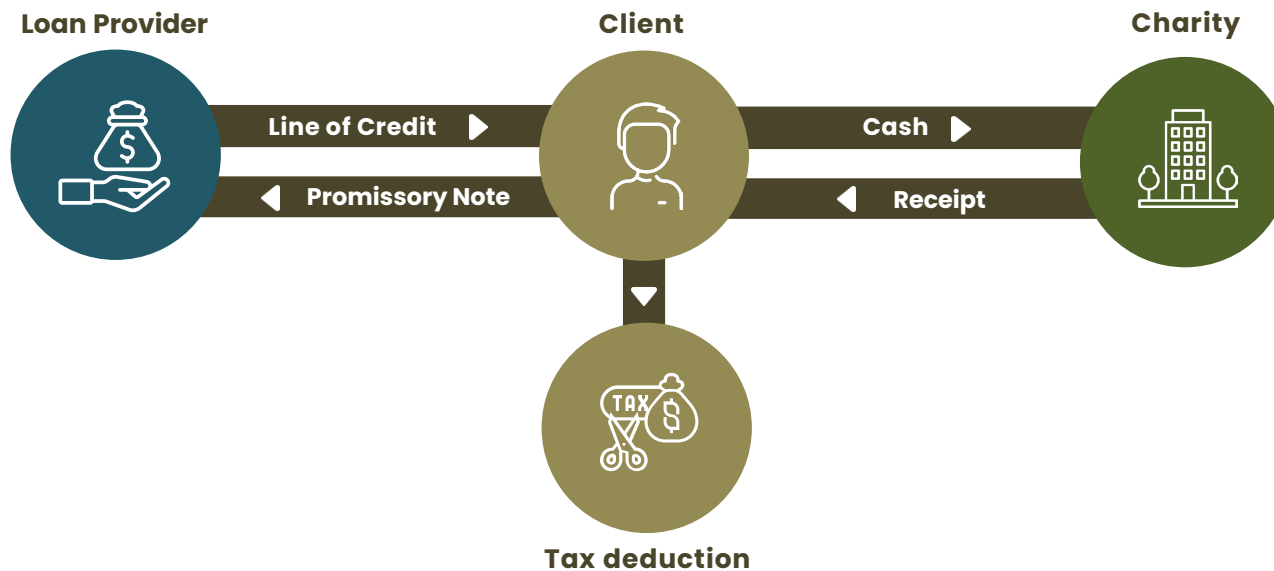
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# INTRODUCTION

**Charitable Gift Financing Blueprint** is a financial strategy enabling charitably inclined, high-earning, high net worth individuals to make tax-deductible cash donations using specialized third-party financing.

The IRS has ruled that when debt to a third party is used to make a charitable contribution, the taxpayer is entitled to a charitable contribution deduction under IRC §170(a) in the year the gift was made, and the deduction may not be postponed until the taxpayer pays the indebtedness. **[Rev. Rul. 78-38, 1978-1 C.B. 67, Granan v. Comm. 55 T.C. 753 (1971)]**



# KEY BENEFITS OF CGF



- ✓ Large Cash Donation using Third-Party Loan
- ✓ Minimum Out-Of-Pocket Cash Outflow
- ✓ A Grantor Trust = Borrower
- ✓ Tax Liability Reduction

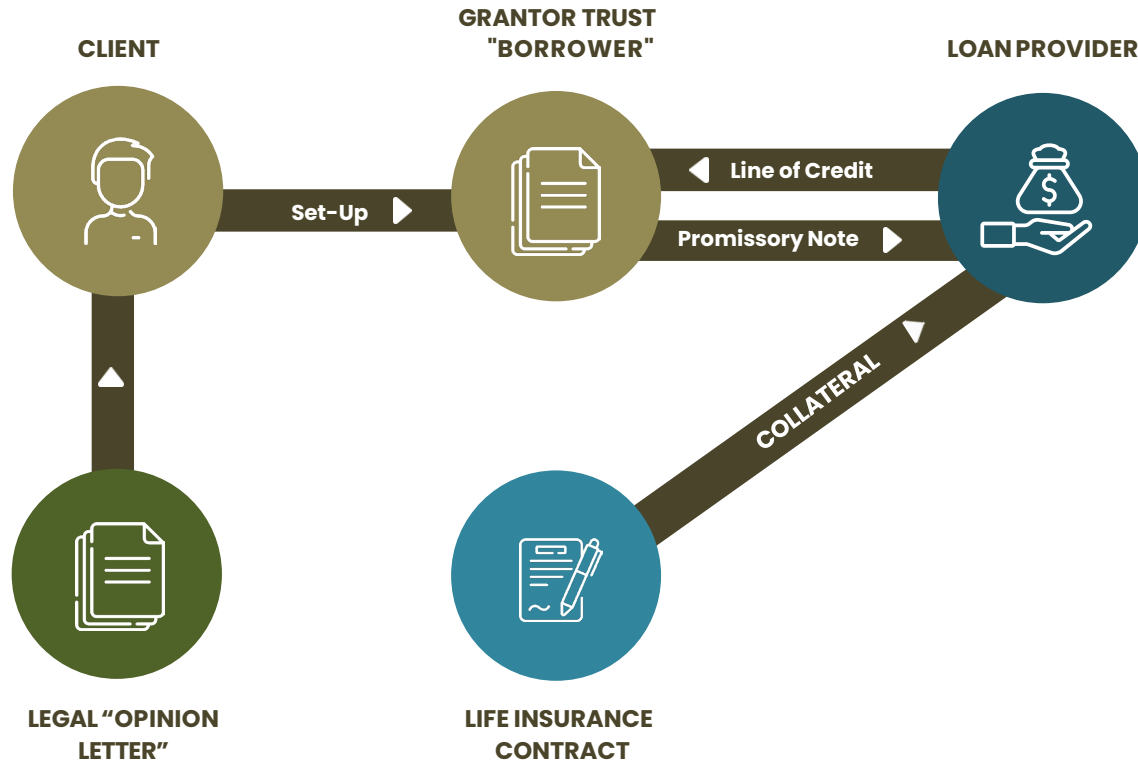


- ✓ Loan origination
- ✓ Collateral = Life Insurance
- ✓ Cash transfer directly to charities
- ✓ Perpetual Gifting through loans

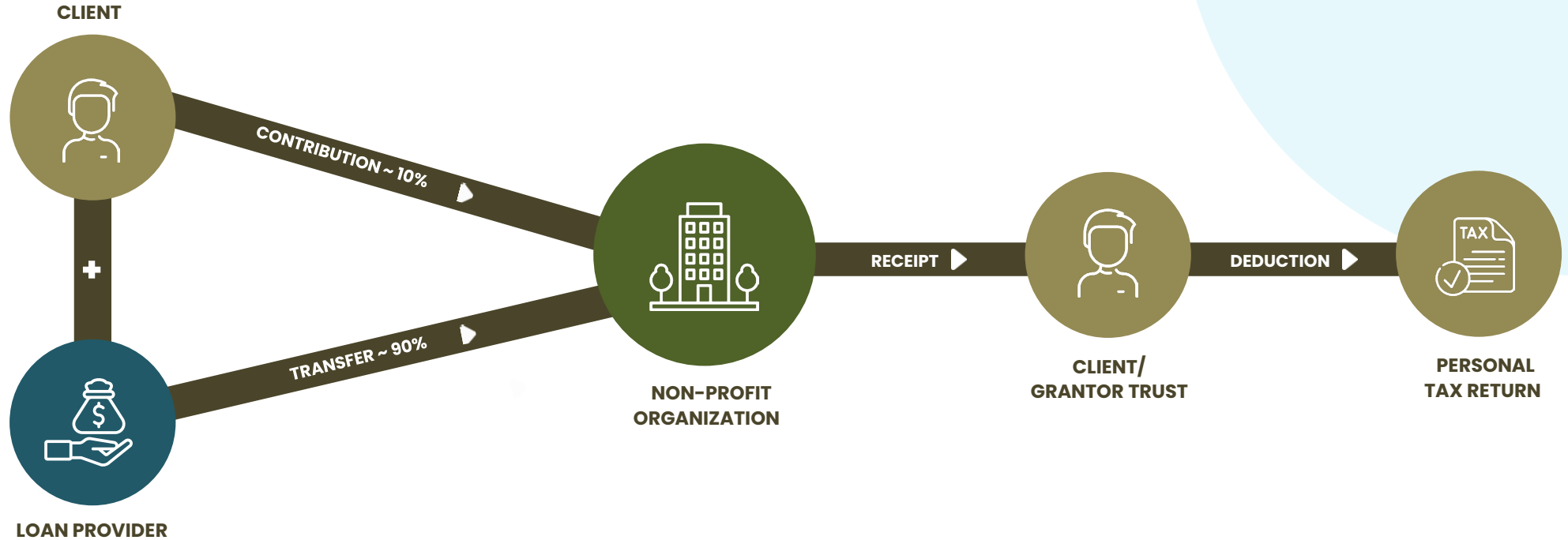


- ✓ Funding
- ✓ Gift Receipt
- ✓ Public Benefits
- ✓ The Economic Effect

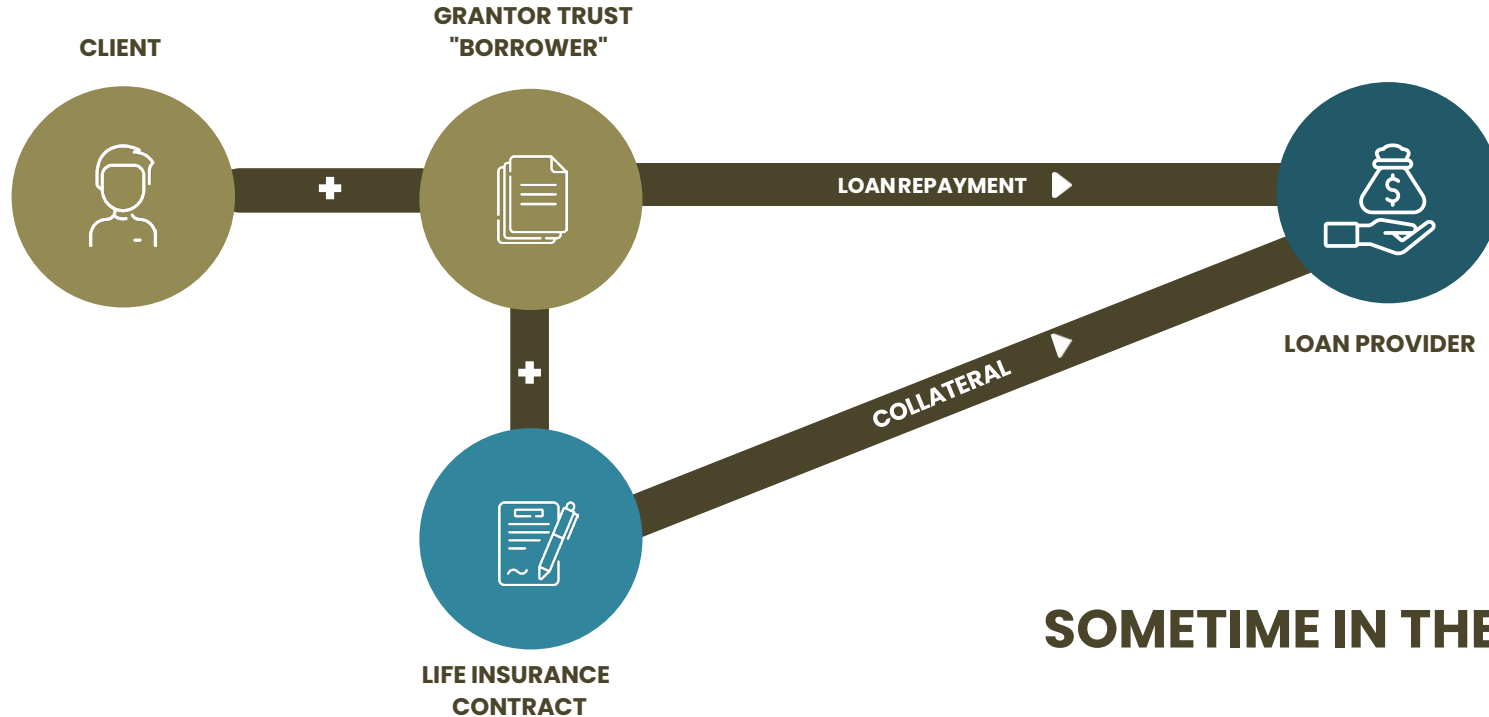
# THE STRATEGY – SUMMARY



# THE STRATEGY – CONTRIBUTION & DEDUCTION

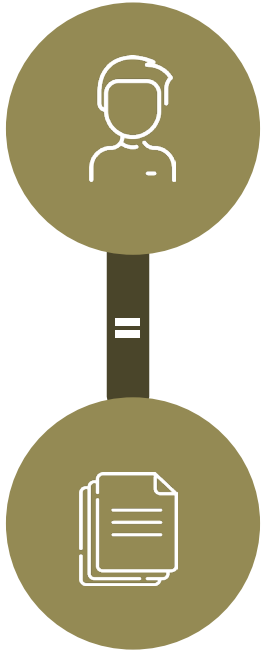


# THE STRATEGY – LOAN REPAYMENT



**SOMETIME IN THE FUTURE**

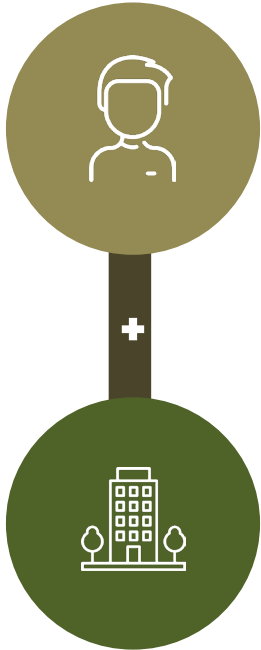
# TAXATION OF GRANTOR TRUST



- "Grantor trust" is a term used in the Internal Revenue Code to describe any trust over which the grantor or other owner retains the power to control or direct the trust's income, debt or assets. IRC§ 673, IRC§ 676(a)
- Flow through to the taxpayer/grantor and the grantor rather than the trust will receive the deductions and/or pay taxes. IRC§ 671, Treas. Reg. §1.671-2
- Any contribution of assets to the trust will not result in gift tax. IRC § 2511(c)
- The grantor trust is disregarded as a separate tax entity, and all deductions or income will be attributed to the grantor. Treas. Reg. §1.671-2(c)
- The charitable deduction will be attributable to the grantor and be governed by IRC §170, Treas. Reg. §1.671- 2(c)
- PRIVACY



# CONTRIBUTION LIMITS FOR A GIFT



- ✓ Tax-Deductible up to **60%** of the contribution base (Adjusted Gross Income)
- ✓ Disregarding any Net Operating Losses
- ✓ The Excess amount can carryover for 5 years (Reg. 1.170A-10(b))
- ✓ Each State may set their own different tax-deduction limits (ex. CA = up to 50%)

# ECONOMICS – CURRENT SITUATION

Name:	SAMPLE CASE
Employment:	W2
Tax Return Filing:	JOINT
Adjusted Gross Income:	\$2,000,000
Tax Rate (Federal & State):	45%
Tax Filing State:	CA

## Personal Income & Tax

Adjusted Gross Income (AGI)	JOINT	\$2,000,000.00
(-) Estimated Itemized Deductions		\$ (50,000.00)
Taxable Income		<hr/>
	JOINT	\$1,950,000.00
Estimated Taxes		
Federal & State (Effective)		\$ (877,500.00)

# ECONOMICS – FEASIBILITY PROPOSAL

## PROPOSED

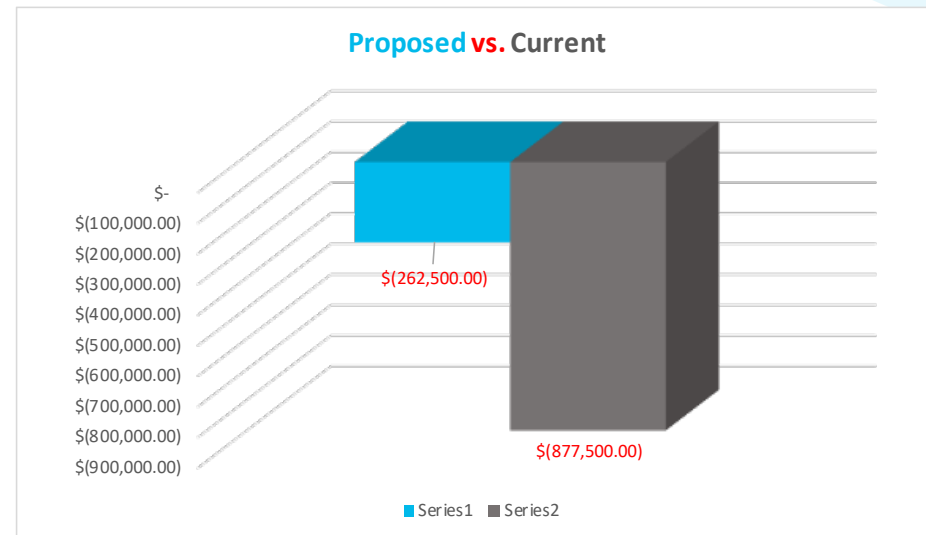
<b>Adjusted Gross Income (AGI)</b>	<b>JOINT</b>	<b>\$2,000,000.00</b>
(-) Estimated Itemized Deductions		\$ (50,000.00)
(-) "Financed" Charitable Deduction 90%		\$ (1,080,000.00)
(-) "Participation" Charitable Deduction 10%		\$ (120,000.00)
<b>(New) Taxable Income</b>		<b>\$ 750,000.00</b>
<b>Estimated Taxes</b>	<b>JOINT</b>	
Federal & State (Effective) 35%		\$ (262,500.00)

<b>(+) Fees &amp; Costs</b>		
[Legal] Tax Opinion Letter		\$ (7,500.00)
[Legal] Grantor Trust		\$ (2,500.00)
[Loan] Origination & Points 2.00%		\$ (21,600.00)
[Loan] Interest Prepayment 4.42%		\$ (47,736.00)
[WE] Coordination & Underwriting		\$ (15,000.00)
<b>Total Fees &amp; Costs</b>		<b>\$ (94,336.00)</b>

<b>GROSS TAX SAVING</b>		<b>\$ 615,000.00</b>
(-) "Participation" Charitable Contribution		\$ (120,000.00)
(-) Fees & Costs		\$ (94,336.00)
<b>NET TAX SAVING</b>		<b>\$400,664.00</b>

## CURRENT

<b>Adjusted Gross Income (AGI)</b>	<b>JOINT</b>	<b>\$2,000,000.00</b>
(-) Estimated Itemized Deductions		\$ (50,000.00)
(-) "Financed" Charitable Deduction 90%		N/A
(-) "Participation" Charitable Deduction 10%		N/A
<b>Taxable Income</b>		<b>\$1,950,000.00</b>
<b>Estimated Taxes</b>	<b>JOINT</b>	
Federal & State (Effective) 45%		\$ (877,500.00)



# ECONOMICS – PRO-FORMA

## Cash Flow Analysis

Schedule	Cash from Tax Saving	Scheduled Insurance Premiums	Cash Remained after Insurance Premium	Assumed Investment Yield on Cash	Cash Remained + Assumed Investment Yield	Life Insurance Cash Surrender Value (CSV)*	Total Cash Remained + CSV Value
Cumulative	\$ 400,664.00	\$ (250,000.00)	\$ 150,664.00	4.50%		6.30%	
Year 1	\$ 400,664.00	\$ (50,000.00)	\$ 350,664.00	\$ 15,779.88	\$ 366,443.88	\$ 24,632.00	\$ 391,075.88
Year 2		\$ (50,000.00)	\$ 316,443.88	\$ 14,239.97	\$ 330,683.85	\$ 78,412.00	\$ 409,095.85
Year 3		\$ (50,000.00)	\$ 280,683.85	\$ 12,630.77	\$ 293,314.63	\$ 135,411.00	\$ 428,725.63
Year 4		\$ (50,000.00)	\$ 243,314.63	\$ 10,949.16	\$ 254,263.79	\$ 195,826.00	\$ 450,089.79
Year 5		\$ (50,000.00)	\$ 204,263.79	\$ 9,191.87	\$ 213,455.66	\$ 259,854.00	\$ 473,309.66
Year 6		\$ -	\$ 213,455.66	\$ 9,605.50	\$ 223,061.16	\$ 276,552.00	\$ 499,613.16
Year 7		\$ -	\$ 223,061.16	\$ 10,037.75	\$ 233,098.91	\$ 295,912.00	\$ 529,010.91
Year 8		\$ -	\$ 233,098.91	\$ 10,489.45	\$ 243,588.36	\$ 315,258.00	\$ 558,846.36
Year 9		\$ -	\$ 243,588.36	\$ 10,961.48	\$ 254,549.84	\$ 335,258.00	\$ 589,807.84
Year 10		\$ -	\$ 254,549.84	\$ 11,454.74	\$ 266,004.58	\$ 356,710.00	\$ 622,714.58
Year 11		\$ -	\$ 266,004.58	\$ 11,970.21	\$ 277,974.79	\$ 379,204.00	\$ 657,178.79
Year 12		\$ -	\$ 277,974.79	\$ 12,508.87	\$ 290,483.66	\$ 401,895.00	\$ 692,378.66
Year 13		\$ -	\$ 290,483.66	\$ 13,071.76	\$ 303,555.42	\$ 426,659.00	\$ 730,214.42
Year 14		\$ -	\$ 303,555.42	\$ 13,659.99	\$ 317,215.41	\$ 452,654.00	\$ 769,869.41
Year 15		\$ -	\$ 317,215.41	\$ 14,274.69	\$ 331,490.11	\$ 479,949.00	\$ 811,439.11
Year 16		\$ -	\$ 331,490.11	\$ 14,917.05	\$ 346,407.16	\$ 506,789.00	\$ 853,196.16
Year 17		\$ -	\$ 346,407.16	\$ 15,588.32	\$ 361,995.48	\$ 535,005.00	\$ 897,000.48
Year 18		\$ -	\$ 361,995.48	\$ 16,289.80	\$ 378,285.28	\$ 564,648.00	\$ 942,933.28
Year 19		\$ -	\$ 378,285.28	\$ 17,022.84	\$ 395,308.12	\$ 595,752.00	\$ 991,060.12
Year 20		\$ -	\$ 395,308.12	\$ 17,788.87	\$ 413,096.98	\$ 628,385.00	\$ 1,041,481.98

## Loan Collateral - Life Insurance

Schedule	Scheduled Insurance Premiums	Loan Interest	Loan Amount + Interest Accrual	Life Insurance Benefit
EOY	\$ (250,000.00)	4.42%	\$ (1,080,000.00)	\$ 1,800,000.00
Year 1	\$ (50,000.00)		\$ (1,080,000.00)	\$ 1,848,932.00
Year 2	\$ (50,000.00)		\$ (1,127,736.00)	\$ 1,900,812.00
Year 3	\$ (50,000.00)		\$ (1,175,472.00)	\$ 1,956,111.00
Year 4	\$ (50,000.00)		\$ (1,223,208.00)	\$ 2,014,726.00
Year 5	\$ (50,000.00)		\$ (1,270,944.00)	\$ 2,076,954.00
Year 6	\$ -		\$ (1,318,680.00)	\$ 2,092,752.00
Year 7	\$ -		\$ (1,366,416.00)	\$ 2,109,412.00
Year 8	\$ -		\$ (1,414,152.00)	\$ 2,126,958.00
Year 9	\$ -		\$ (1,461,888.00)	\$ 2,145,410.00
Year 10	\$ -		\$ (1,509,624.00)	\$ 2,164,810.00
Year 11	\$ -		\$ (1,557,360.00)	\$ 2,185,504.00
Year 12	\$ -		\$ (1,605,096.00)	\$ 2,207,295.00
Year 13	\$ -		\$ (1,652,832.00)	\$ 2,230,259.00
Year 14	\$ -		\$ (1,700,568.00)	\$ 2,254,454.00
Year 15	\$ -		\$ (1,748,304.00)	\$ 2,279,949.00
Year 16	\$ -		\$ (1,796,040.00)	\$ 2,306,789.00
Year 17	\$ -		\$ (1,843,776.00)	\$ 2,335,005.00
Year 18	\$ -		\$ (1,891,512.00)	\$ 2,364,648.00
Year 19	\$ -		\$ (1,939,248.00)	\$ 2,395,752.00
Year 20	\$ -		\$ (1,986,984.00)	\$ 2,428,385.00

\*Using Non-Guaranteed crediting rate & current charges.

See life insurance illustration for details.



# ECONOMICS – LIFE INSURANCE ILLUSTRATION

## Income Advantage™ IUL Policy Ledgers



United of Omaha Life  
Insurance Company  
A Mutual of Omaha Company

Insured: Sample Client

Female, Age 45, Preferred Plus Non-Tobacco

Total Initial Death Benefit: \$1,800,000  
Base Plan Death Benefit Only: \$900,000  
Additional Insured Rider Only: \$900,000

Death Benefit Option: Increasing years 1 - 20  
Level years 21 - 75

Annual Premium: \$50,000.00

End of Policy Year	At Age	Annualized Premium Outlay	S&P 500® One-Year 100% Participation Account			Guaranteed Interest Rate	Alternate Scale Non-Guaranteed Interest Rate	Non-Guaranteed Illustrated Interest Rate
			Allocations %	Guaranteed Interest Rate	Alternate Scale Non-Guaranteed Interest Rate	Non-Guaranteed Illustrated Interest Rate		
			100%	0.0%	4.0%	6.3%		
			Guaranteed			Alternate Scale Non-Guaranteed		
			End of Year Values			End of Year Values		
			Accumulation Value	Surrender Value	Death Benefit	Accumulation Value	Surrender Value	Death Benefit
1	46	50,000	41,590	17,290	1,841,590	47,873	23,573	1,847,873
2	47	50,000	83,108	60,608	1,883,108	97,627	75,127	1,897,627
3	48	50,000	124,519	103,819	1,924,519	149,318	128,618	1,949,318
4	49	50,000	165,804	146,904	1,965,804	203,015	184,115	2,003,015
5	50	50,000	206,928	189,828	2,006,928	258,782	241,682	2,058,782
6	51	0#	202,836	186,636	2,002,836	267,518	251,318	2,067,518
7	52	0#	198,474	184,974	1,998,474	276,474	262,974	2,076,474
8	53	0#	193,788	182,088	1,993,788	285,629	273,929	2,085,629
9	54	0#	188,705	178,805	1,988,705	294,954	285,054	2,094,954
10	55	0#	183,190	175,090	1,983,190	304,442	296,342	2,104,442
		Subtotal 250,000						
11	56	0#	177,264	170,964	1,977,264	314,380	308,080	2,114,380
12	57	0#	170,923	165,523	1,970,923	324,514	319,114	2,124,514
13	58	0#	164,187	160,587	1,964,187	334,857	331,257	2,134,857
14	59	0#	157,019	155,219	1,957,019	345,404	343,604	2,145,404
15	60	0#	149,400	149,400	1,949,400	356,152	356,152	2,156,152
16	61	0#	141,261	141,261	1,941,261	367,074	367,074	2,167,074
17	62	0#	132,492	132,492	1,932,492	378,126	378,126	2,178,126
18	63	0#	123,021	123,021	1,923,021	389,277	389,277	2,189,277
19	64	0#	112,742	112,742	1,912,742	400,476	400,476	2,200,476
20	65	0#	101,598	101,598	1,901,598	411,701	411,701	2,211,701
		Subtotal 250,000						



# NEXT STEPS & TIMELINE

## Step 1 Pre-Qualification

- Charitable Questionnaire
- Obtain a “soft” commitment from the lender

## Step 2 Pre-Approval

- WE engagement / Fee payment
- Loan application & additional documents
- Attorney consultation & engagement – “Tax Opinion Letter”
- Attorney engagement – “Grantor Trust” drafting
- Loan underwriting
- Life insurance application & underwriting

## Step 3 Approval – Closing

- Loan documents execution
- Loan fees and interest payment
- Loan funding (90%) – funds sent to charity
- Client funding (10%) – funds sent to charity
- Life insurance contract signing & premium payment
- [Optional] Brokerage account set-up

## Step 4 Reporting / Tax Return Filing

- Obtain a gift receipt from the charity before December 15<sup>th</sup>
- File your tax return

The entire  
process takes  
**up to 75 days**

# Q & A

## What is IRS rule for using a loan to make a charitable gift?

The IRS has ruled that when debt to a third party is used to make a charitable contribution the taxpayer is entitled to a charitable contribution deduction under IRC §170(a) in the year the gift was made, and the deduction may not be postponed until the taxpayer pays the indebtedness.

Rev. Rul. 78-38, 1978-1 C.B. 67, *Granat v. Comm.* 55 T.C. 753 (1971)

## How do I get a personal deduction if I use a grantor trust?

Per the IRS regulations, a grantor trust is defined as a trust in which the grantor—the individual who establishes the trust—retains control over the trust's income, assets, and debts, according to IRC § 673. Consequently, the income and deductions of the grantor trust are attributed directly to the grantor under IRC § 671 and Treasury Regulation § 1.671-2. Additionally, the trust itself is not obligated to file a separate tax return.

## What is the interest rate for the loan?

The interest rate for the loan is set at the IRS's applicable federal rate (AFR) for demand notes. While this rate is subject to change, it has averaged around 3% over the past 50 years.

## How much can I claim as a tax deduction?

A donor may claim a tax deduction of up to 60% of their adjusted gross income (AGI), accounting for other deductions, in the year a cash donation is made. Should the contribution surpass this 60% threshold, the excess may be carried forward and deducted over the next five years, as outlined in Reg. 1.170A-10(b).

## Who provides the capital for the loan?



The capital for the loan is provided by endowment funds, private foundations, and other organizations with a charitable focus, through specialized lenders. These entities allocate a part of their annual distributions to loan programs, aiming to amplify charitable contributions that benefit various causes.

## How do I pay the interest and repay the loan?

In general, the required interest prepayment in the first year ranges between one to three years with the remainder interest be rolled up into the balance of the loan and paid off at the time of the donor's death using the proceeds of the life insurance death benefit.

# CONTACT US



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