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**Fortifying Your Rockbound Highland Home**

**3 Ways to leave a financial legacy to West Point, eliminate your tax burden and receive income for a lifetime**

Anyone who is a graduate of the United States Military Academy regards their four years at West Point as a pinnacle event in their life. The selection process is just the beginning of a long four year struggle. For some cadets, the struggle is with the Dean of Academics. For other cadets, the challenge is disciplinary, and marching and becoming a Century Man. Other cadets mastered the academics but struggled with the physical requirements. In the final analysis, every cadet faced at least one challenge that molded them into military leaders to lead and defend the nation. Some of the Country’s greatest leaders faced and met those challenges.

The Country once again faces a new epic challenge, a challenge that is partly invisible, but has shaken the Country to its core. This challenge and its economic consequences may last for an indefinite period. The financial ramifications of this crisis may matter more the to the mission of the United States Military Academy than past challenges.

Unlike Ivy League schools which enjoy large endowments built over decades, the service academies are relatively new to the planned giving game. In the past, service academies could always rely on generous allocations from the defense budget. In more recent times, all of the cadet extra-curricular activities need to be funded by the West Point Association of Graduates (AOG) Endowment.

The AOG usually is not afforded the opportunity to sit down with you and your accountant when you are contemplating the sale of your business or appreciated company stock that you have held for a long time. The COVID-19 pandemic has created a once-in-a-lifetime financial and tax planning opportunity to be able to leave a legacy to West Point. In 2020 you have the ability to deduct 100 percent of your income.

Taxpayers are usually restricted in their charitable deductions to a percentage of their adjusted gross income (AGI) depending upon the nature of the gift. This report (as promised) is going to outline three strategies to pay zero dollars (you read correctly) in 2020 while leaving a financial legacy for the Academy. For some of you (including me!), it is a chance to erase your prior legacy as a Century Man or the Class Goat. Just saying!

**The Lay of the Land in 2020**

In response to the Corona Virus pandemic, The Coronavirus Aid, Relief and Economic Security Act (CARES Act) was enacted on March 27, 2020. In order to encourage charitable contributions in 2020 (for any charitable purpose, not just contributions to charities related to the COVID-19 crisis,) the CARES Act increased the maximum 60% of AGI charitable contribution limit to a 100% of AGI limit for gifts of cash for 2020. The 100% limit also includes gifts of property directly to donated to the AOG in 2020.

This means that donors can get a charitable contribution deduction for the full amount of their Adjusted Gross Income (AGI). You read that correctly, 100 percent of your income in 2020. Under normal circumstances, tax law would limit charitable deductions to a public charity to 60 percent of AGI. The deduction limit for gifts of appreciated long-term capital gains property. The deduction limit for a donation that is a combination cash and property is 5o percent of AGI.

**Tax Orienteering – Traversing the Landscape to Maximize Deductions**

From my time on active duty, NCOs always said that the most dangerous thing was a second lieutenant with a map. Navigating through the Internal Revenue Code is equally as dangerous. The following examples outlined provide some examples of how to exploit the once-in -lifetime opportunity of being able to make a charitable contribution to the AOG equal to 100 percent of your AGI in 2020.

**Example 1**

Johnny Gung Ho, USMA Class of 1982, would like to make a substantial gift to the Academy. His AGI for 2020 is $250,000. He would like to make a gift to the AOG Endowment equal to his AGI in 2020. He has additional financial resources outside of his AGI to pay his living expenses in 2020.

**Solution 1 **

Johnny Gung Ho makes a gift of a $250,000 four-plex in Killeen, TX directly to the AOG in 2020. Normally, this type of gift would be limited to 30 percent of AGI, as long term capital gain property. The CARES Act allows a deduction of cash or property up to 100 percent of AGI in 2020 providing the gift is made directly to a public charity. Taxable gifts to a public charity may be deducted up to 100 percent of AGI provided that the charitable gift is made directly to a public charity.

**Example 2 – Leaving Money to the Academy While Converting your IRA to a Roth IRA in 2020**

Johnny Gung Ho, USMA Class of 1982, would like to make a substantial gift to the Academy - $1 million, to commemorate the number of Tours he walked in his four year cadet career. His AGI for 2020 is $500,000 before planning. He would like to make a gift to the AOG Endowment of $1.0 million in 2020. He would also like to convert his IRA worth $500,000 to a Roth IRA in 2020. The distribution of the IRA will increase is AGI to $1.0 million.

**Solution 2 **

Gung Ho donates three rental properties to the AOG gift with a fair market value of $750,000. He also makes a cash gift of $250,000. Normally, this type of gift would be limited to 30 percent of AGI, as long term capital gain property. The CARES Act allows a deduction of cash or property up to 100 percent of AGI in 2020 providing the gift is made directly to a public charity.

The planning allows Gung Ho to pay zero taxes in 2020. At the same time, Gung Ho is able to convert his taxable IRA in a Roth IRA. The charitable gifts to the AOG offset the taxes on the lump sum distribution of the IRA funds. Unlike the taxable IRA, the Roth IRA is not subject to required minimum distributions at age 72. The future Roth distributions are also not subject to taxation. Gung Ho wins on several fronts – 1) No taxation in 2020; 2) Conversion of the taxable IRA to a Roth IRA; 3) the legacy of a Century Man is dead and buried in the West Point Cemetery.

**Example 3 - Leaving a Legacy While Providing for the Family**

Johnny Gung Ho, USMA Class of 1982, would like to make a substantial gift to the Academy - $2.5 million of shares of Acme, Inc, a publicly traded company. He is a resident of California and will be in the top marginal tax bracket for federal and state purposes. He wants to know how much it would take in a charitable gift to remove the statue of George Patton and place a statue of Gung Ho. Unfortunately, $2.5 million is a generous gift but not enough to send General Patton’s statue on its way.

**Solution 3   **

Gung Ho creates a Nevada non-grantor trust (Gung Ho Family Trust). The trust is structured in a manner so that the transfer of the stock is not considered a taxable gift for federal gift tax purposes. The non-grantor trust status means that the trust rather than Gung Ho will be taxed on the taxable gain when the trustee sells the shares for a significant gain. A trust is subject to the top marginal income tax bracket with only $12,900 of taxable income. The tax problem associated with the sale of Acme stock is averted by the charitable contributions of the trustee. The charitable deduction may be made up to 100 percent of net trust income. This charitable donation offsets 100 percent of the taxable income of the Trust.

Prior to the charitable contribution, the Trustee of the Gung Ho Family Trust, purchases a life insurance policy insuring Gung Ho. The policy is contributed to a Charitable Lead Annuity Trust (CLAT). The CLAT established by Gung Ho in 2020 provides for annual payments to the AOG for its unrestricted use over a twenty five year term. The payments escalate by twenty percent per year over a twenty five year period. At the end of this twenty five year period, the remaining trust corpus reverts to the Gung Ho Family Trust. Assuming a growth rate of 7.0 percent per year over the twenty five year, the projected value of the reversion to the Gung Ho Family Trust is 3.7 million. The CLAT’s projected payment(s) to the AOG over the twenty five year term is $1.2 million.

Gung Ho was able to sell his appreciated stock without any gain due to the Gung Ho Family Trust’s charitable contribution to the CLAT. The life insurance planning allows the CLAT to avoid any taxable income to the CLAT over the twenty five year term. Gung Ho’s premature death would enhance the value to the AOG as well as the remainder interest passing to the Gung Ho Family Trust. The trustee of the CLAT makes a substantial gift of $1.2 million to the AOG. At the end of the twenty five year term, approximately $3.7 million reverts back to the Gung Ho Family Trust.

To learn more or discuss your personal goals please contact:

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