



CAPE COD
HEALTHCARE
FOUNDATION

Planned Giving

An Investment in Cape Cod's Future

A Donor's Guide to Federal Taxes 2026

The Most Flexible Tax-Saving Tool: The Charitable Deduction

A distinguishing characteristic of American society has been the voluntary association of individuals to address needs. This was the characteristic of the young country that impressed Alexis de Tocqueville of France when he toured the United States in the early 1830s. In his report *Democracy in America*, which he published in 1835, he observed that when Americans see a problem they do not wait for government alone to solve it for them, but they immediately form an association to deal with it.

For more than 100 years the United States government has provided tax incentives to encourage individuals to contribute to the charitable organizations whose missions they want to support. Those tax incentives have encouraged gifts both during and at the end of

life. The major incentive, of course, is the charitable deduction. A person who makes a gift during life can claim income- and gift-tax deductions, and the estate of a person who leaves a bequest to a nonprofit organization can claim an estate-tax charitable deduction. **Note:** The War Revenue Act of 1917 authorized the first individual income-tax deduction for charitable gifts.

The tax savings resulting from the charitable deduction remain quite substantial for those who itemize deductions. The income-tax deduction in particular is a powerful tool because it offers taxpayers incredible flexibility regarding the amount, timing, and type of gift. Generally speaking, taxpayers tend to have much less control over other types of deductions—such as those for state and local taxes and mortgage interest.

Tax Savings Tied to Income-Tax Rates

The actual financial benefit of a charitable tax deduction is primarily a function of a taxpayer's marginal income-tax rate: the higher your marginal tax rate, the more savings you will realize from your charitable deductions.

2026 Tax Rates & Brackets			
Tax Rate	Single	Married Filing Jointly	Head of Household
	TAXABLE INCOME		
10%	Up to \$12,400	Up to \$24,800	Up to \$17,700
12%	>\$12,401-50,400	>\$24,801-100,800	>\$17,701-67,450
22%	>\$50,401-105,700	>\$100,801-211,400	>\$67,451-105,700
24%	>\$105,7001-201,775	>\$211,401-403,550	>\$105,701-201,775
32%	>\$201,776-256,225	>\$403,551-512,450	>\$201,776-256,200
35%	>\$256,226-640,600	>\$512,451-768,700	>\$256,201-640,600
37%	Over \$640,601	Over \$768,701	Over \$640,601

In 2026 cash gifts are deductible up to 60% of your adjusted gross income (AGI). Any unused deduction can be carried forward for up to five additional years.

Example: John, a single taxpayer, would have taxable income of \$250,000 this year if he did not make any charitable gifts. He decides to make a cash gift of \$20,000 to support our work. Because his income places him in the 35% marginal tax bracket, John's gift will reduce by approximately \$7,000 (35% x \$20,000) the amount of tax he would have otherwise owed. Thus the net cost of his \$20,000 gift is \$13,000. The exact amount John can claim as a charitable deduction depends on two factors: the total amount of his charitable gifts (including the deduction described here) and his adjusted gross income.

Charitable-planning pointer: In certain states a gift may also generate state income-tax savings. The examples and explanations here refer to the federal tax.

Even Better: A Gift of Long-Term Capital-Gain Property

If you own assets that have increased in value—such as stocks, bonds, and real estate—your savings may be even greater if you use them to make charitable gifts. The reason is that gifts of most long-term capital-gain assets are deductible at their full fair-market value, and you are not taxed on the capital gain.

The capital-gain tax rate depends on the type of assets you contribute, how long you have owned these assets, and your marginal tax rate. The following charts show the capital-gain tax rates for sales of stock and nondepreciated real estate that has been owned for more than one year.

Single Taxpayer	
Taxable Income	Tax Rate on Long-Term Capital Gain and Qualified Dividends
Up to \$49,450	0%
>\$49,451-545,500	15%
\$545,501 and over	20%
Head of Household	
Taxable Income	Tax Rate on Long-Term Capital Gain and Qualified Dividends
Up \$66,200	0%
>\$66,201-579,600	15%
\$579,601 and over	20%
Married, Filing Jointly	
Taxable Income	Tax Rate on Long-Term Capital Gain and Qualified Dividends
Up to \$98,900	0%
>\$98,901-613,700	15%
\$613,701 and over	20%

In addition to the tax on capital gain at the applicable rate, the Affordable Care Act levies a surtax of 3.8% on the investment income (capital gain, dividends, interest, and rents) of taxpayers whose adjusted gross



income exceeds certain thresholds—\$200,000 for single individuals and head-of-household taxpayers, and \$250,000 for couples filing jointly. Thus the maximum effective capital-gain tax rate on securities and nondepreciated real estate could be 18.8% or 23.8%.

It should be noted that a higher tax on capital gain applies to tangible personal property (28%) and to the gain attributable to the depreciation in depreciated real estate (25%). Those rates do not include the surtax.

Example: Years ago, Gloria bought shares of XYZ stock for \$20,000. The stock increased in value to \$60,000 but recently dropped in value to \$40,000. She thinks it would be a good idea to dispose of this particular stock; but if she sells it, she will owe tax on the \$20,000 of long-term capital gain.

Gloria was planning to make a substantial gift to us this year, so she decides to give XYZ stock instead of cash. She is able to deduct the full \$40,000 value, realizing approximately \$14,000 in income-tax savings given her 35% tax bracket. She also avoids paying the 18.8% (\$3,760) tax on her \$20,000 paper profit. (Because of her income level, the 3.8% surtax is added to her 15% capital-gain tax rate.) This plan results in total tax savings of \$17,760 (\$14,000 income-tax savings + \$3,760 capital-gain tax savings). Please note that the exact amount Gloria can claim as a charitable deduction depends on two factors: the total amount of her charitable gifts (including the deduction described here) and her adjusted gross income.

A gift of stock can be a particularly good way to close out a position in the market without negative consequences. Those who held their positions following the 2008 market decline may have significant gain in their portfolios notwithstanding any recent declines in stock values.

While market uncertainty has left many looking to protect the gain in stocks they still hold, capturing it the traditional way—by selling—will result in a tax on the capital gain. By giving stock instead of cash, you can escape this locked-in position and preserve your charitable deduction. If you like the stock as an investment, you can repurchase it after making the gift.

Deduct your gifts of appreciated assets, up to 30% of AGI. Unlike gifts of cash, gifts of long-term appreciated assets are deductible to the extent of 30% of your AGI. **Note:** Just as with gifts of cash, any unused deduction can be carried forward for up to five additional years.

Rules for tangible personal property: While gifts of long-term appreciated securities and (most) real estate are usually deductible at fair-market value, there are special rules that apply to certain kinds of assets. Gifts of tangible personal property—such as art, jewelry, and coin collections—are deductible at full fair-market value if we can put the asset to a use related to our exempt purposes. Otherwise, your deduction is equal to the lower of the fair-market value and your basis in the asset.

Please speak with a member of our staff for instructions if you are planning a gift of publicly traded securities. Gifts of other types of appreciated assets, such as real estate and business interests, are more complex and generally require consultation with our staff as well as your advisors.

Note: In certain states that tax capital gain, a gift of appreciated assets may result in additional tax savings that would further reduce the cost of the gift.

Special Rates for Dividend Income

Just as with long-term capital gain, most dividend income receives special tax treatment. As noted previously, the rate is 15% or 20% depending on the amount of taxable income. A surtax of 3.8% applies to investment income, which includes dividend income, so certain higher-income taxpayers will pay a rate of 23.8% on dividends.

Standard Deduction

As a result of the Tax Cuts and Jobs Act (TCJA), fewer people than before itemize deductions than before. One reason is that the standard deduction has been increased to:

- \$16,100 for single individuals and married persons filing separately.
- \$24,150 for heads of households.
- \$32,200 for married couples filing jointly.

Seniors over the age of 65 may claim an additional standard deduction of \$2,050 for single filers and \$1,650 for joint filers. For example, the standard deduction for a 70-year-old single filer would be \$18,150 (\$16,100 + \$2,050), and the standard deduction for a couple, both 76, would be \$35,500 (\$32,200 + \$1,650 + \$1,650). On top of these increases in the standard deduction, some taxpayers aged 65 and older may be eligible to claim an additional deduction of up to \$6,000, which phases out as income increases. This is part of a separate senior deduction under a tax act that was signed into law in 2025, and it ends in 2028.

The other reason for the fewer number of itemizers is that the deductions for a number of expenses have either been eliminated or limited under the TCJA. For example, the total amount that can now

be deducted for any combination of state and local income tax, property tax, and sales tax is \$10,000. (This is commonly referred to as the SALT deduction limitation.)

New Charitable Deduction for Nonitemizers

As noted, the Tax Cuts and Jobs Act (TCJA), enacted in 2017, significantly reduced the percentage of persons who itemize deductions. Only about 10% of tax filers have recently been itemizing. The others have been taking the standard deduction, and, consequently, they have been deriving no tax savings from their charitable gifts. However, beginning in 2026, a subsequent tax act signed into law in 2025 allows a single filer to deduct up to \$1,000 of charitable gifts and joint filers to deduct up to \$2,000 even if they do not itemize other deductions.

Charitable Remainder Trusts

One of the most popular types of life-income gifts is the charitable remainder trust. There are two basic types: the charitable remainder annuity trust (CRAT), which generates fixed payments based on a percentage of the original contribution to the trust; and the charitable remainder unitrust (CRUT), which provides variable payments based on a fixed percentage of the trust's value as it changes from year to year. In both cases, the trust funds remaining at the death of the last income beneficiary pass to one or more organizations you designate.

How they work: If you contribute \$100,000 to establish a CRAT and retain a 5% income interest for yourself, you will receive \$5,000 each year for life.

With a 5% CRUT you will receive \$5,000 the first year, but future payments will be based on the trust's value each year thereafter. In both cases, you will be entitled to a current charitable tax deduction equal to the present value of the organization's right to receive the remainder of the trust at your death.

A CRAT enables you to lock in a fixed payment. It is particularly appealing to older individuals who want the security of predictable income unaffected by financial markets.

A CRUT allows you to incorporate special provisions to make it serve a variety of planning purposes. For example, you can limit annual income paid out to the lower of either the stated payout rate or the actual income of the trust. This can be a terrific retirement-planning tool if managed to primarily produce appreciation of capital instead of income—such as interest and dividends—until you are ready to start receiving payments. This allows the trust to grow faster, eventually producing even more income when you will need it. It is even possible to create a trust that starts out as an “income-only” trust then “flips” to a CRUT that pays a fixed percentage at some point in the future. Often, this type of trust is used when individuals plan to donate appreciated real estate.

Both CRUTs and CRATs are excellent vehicles to escape “locked-in” positions in stock holdings—and can be extremely valuable for planning in volatile markets.

Example: Don, 70, has watched his stock portfolio grow and then decline; and like many others currently, he is concerned about the future direction of the market. Now that he is retired, he would like to get a higher return from his investments—most of which are stocks paying small dividends—but he is reluctant to sell and incur significant tax on the capital gain that remains.

**Charitable Deductions
\$100,000 CRUT Payout Rates
One Beneficiary**

Age	5%	5.5%	6%
60	\$35,879	\$32,759	\$29,976
65	\$42,519	\$39,377	\$36,526
70	\$49,889	\$46,834	\$44,018
75	\$57,830	\$54,987	\$52,326
80	\$66,018	\$63,511	\$61,130
85	\$73,971	\$71,894	\$69,896

Two Beneficiaries

Ages	5%	5.5%	6%
60-60	\$25,777	\$22,620	\$19,870
65-65	\$31,876	\$28,550	\$25,593
70-70	\$39,030	\$35,645	\$32,575
75-75	\$47,187	\$43,885	\$40,835
80-80	\$56,097	\$53,043	\$50,173
85-85	\$65,243	\$62,592	\$60,061

**\$100,000 CRAT Payout Rates
One Beneficiary**

Age	5%	5.5%	6%
75	\$56,055	\$51,660	\$47,274
80	\$64,880	\$61,368	\$57,856
85	\$73,304	\$70,635	\$67,965

Two Beneficiaries

Ages	5%	5.5%	6%
75-75	\$44,618	\$39,080	\$33,558
80-80	\$54,383	\$49,821	\$45,259
85-85	\$64,197	\$60,617	\$57,037

*Even though the federal discount rate has recently increased somewhat, it remains relatively low. Consequently, CRATs for young beneficiaries may not qualify for a charitable deduction. That is why this chart shows only older beneficiaries contributing for a CRAT. Usually only older beneficiaries establish CRATs because they are at the stage of life when the security of fixed payments is more important than the potential for growth. The CRUT is suitable for any age and especially for those who want the possibility of income growth to keep pace with inflation.

Don decides to use stock currently worth \$200,000, purchased years ago for \$100,000, to create a CRUT that will pay him 6% of its annual value. Don will be able to claim an income-tax charitable deduction in the amount of \$88,036, and he will receive \$12,000 in the first full year.

The Charitable Gift Annuity

Another type of gift arrangement that generates a fixed life income is the charitable gift annuity. Payments can be made either to one or two beneficiaries, and the annuity rate is based on the age(s) of the beneficiary(ies).

One of the most attractive features of the gift annuity is that a substantial portion of the annual payout is a tax-free return of principal for the remainder of the life expectancy of the recipient(s).

Meet your charitable goals. Individuals who want to make charitable gifts may find a gift annuity is an excellent way to meet philanthropic goals while increasing their current cash flow.

Example: Phyllis, 75, has a \$100,000 CD maturing soon. She needs to continue to receive the income it produces but does not find the 3.5% renewal rate very attractive.

She decides instead to cash in the CD and use the proceeds to fund a major charitable gift she has been planning. She contributes \$100,000 for a charitable gift annuity that will pay her \$7,000 annually in quarterly installment payments for as long as she lives, and only \$2,037 is taxable annually for the duration of her life expectancy.

Moreover, \$4,963 of her annual payments will be tax-free for the duration of her life expectancy. Phyllis

can claim an income-tax deduction of \$38,476, saving income tax and reducing the out-of-pocket cost of her gift.

We can provide you with a personalized illustration showing the amount of your payments, how they would be taxed, and the charitable deduction based on the amount you wish to contribute.

Comparison of Cash Flow from a Gift Annuity and a Fully Taxable Investment

Assuming that Phyllis is subject to a 24% tax rate, she would pay tax of \$489 on the taxable portion of her annuity payments ($24\% \times \$2,037 = \489). That would leave an after-tax cash flow of \$6,509. To have that amount of after-tax cash flow from a taxable investment instrument, such as a bond fund, she would have to earn interest of about \$8,565 (8.5%). That, of course, is virtually impossible in today's environment. Those able and willing to commit some of their principal for an eventual benefit to our organization will often increase their cash flow significantly.

Increased Exemption for Federal Estate and Gift Tax

The Tax Cuts and Jobs Act, enacted in 2017, preserved the federal estate tax but doubled the exemption. In 2026 the exemption is \$15 million, and the combined exemptions for a married couple are \$30 million. If lifetime taxable gifts plus end-of-life gifts to individuals exceed these exemptions, the excess will be taxed at a 40% rate. Since very few estates exceed these amounts, the number of estates subject to the federal tax is small.

However, if you live in one of the states that has a state estate tax, your estate could be subject to the state tax—even if it is not subject to the federal tax. That is because the state exemption amount in those states is generally lower than the federal exemption.

Bequests to nonprofit organizations can be deducted on the federal estate-tax return and generally on any state estate return as well. Consequently, a charitable bequest can reduce the amount of tax owed on the estates of high-net-worth individuals.

Example: Margaret left an estate valued at \$16 million, and she lived in a state with no state estate tax. In her will she gave \$1 million to our organization and the remainder of her estate to family members. Since \$15 million of her estate could be exempted and the gift to charity qualified for the estate-tax charitable deduction, no estate tax was payable. If she had given her entire estate to family members, \$1 million would have been subject to federal estate tax and \$400,000 would have been payable. Thus the net cost of a family legacy of \$1 million was only \$600,000.

The Charitable Lead Trust

High-net-worth individuals who would like to transfer significant wealth to children or grandchildren while minimizing gift and estate tax should consider a charitable lead trust.

Here's how it works: You put assets into a trust that makes annual gifts to us for a designated period of time, after which the balance of the trust is distributed to your designated beneficiary or beneficiaries. During the trust term you do not pay any tax on the trust's income. The present value of the charitable interest is subtracted from the total you contribute to

the trust; only the balance—if any—is subject to the transfer tax, regardless of how much the trust assets grow in value.

It is possible to design a lead trust where the trust principal is returned to you rather than being distributed to others. This is called a **grantor** charitable lead trust. You receive an income-tax charitable deduction, but you are taxed on the trust income even though you do not receive it. The more common type is the one described above, which distributes the principal to your designated beneficiaries. It is called a **nongrantor** charitable lead trust.

Suppose that Margaret in the previous example, instead of making a \$1 million outright bequest to our organization, created a charitable lead annuity trust that would pay us \$60,000 per year for 15 years and then pass the remaining principal to her grandson—who is now 10 years old. The gift would result in an estate-tax charitable deduction of \$648,826, resulting in estate savings of \$259,530 (\$648,826 x 40%). Margaret not only saves taxes but also delays the gift to her grandson until he is more mature.

The following chart illustrates various possibilities when you contribute \$1 million for a charitable lead annuity trust.

\$1,000,000 Nongrantor Charitable Lead Annuity Trust Charitable Deduction			
Annual Payment to Charity from Trust	Term of Years		
	10	15	20
\$50,000	\$397,588	\$540,688	\$656,069
\$60,000	\$477,106	\$648,826	\$787,283
\$70,000	\$556,624	\$756,963	\$918,497
\$80,000	\$636,141	\$865,101	\$1,000,000

How to Determine the Charitable Deduction Under the New Tax Act

Per a provision of the new law, which became effective in 2026, if you itemize your deductions, the amount of gifts you can claim on your tax return is your total contributions minus a floor, which is 0.5% of your adjusted gross income (AGI).

Suppose, for example, that in the course of the year you made charitable gifts totaling \$20,000 and your AGI was \$300,000. Your floor would be $0.5\% \times \$300,000$, which is \$1,500. The amount you can claim as a deduction is \$20,000 minus \$1,500, which is \$18,500.

At the end of the year when you file your tax return, your total contributions and your AGI will be known, so the exact amount you can claim as a deduction can be determined. However, you may not have this information during the year. If that is the case, you can approximate the deduction by subtracting your estimated floor from your estimated contributions. Remember that contributions include not only outright gifts but also the deductible portion of other gifts, such as gift annuities and charitable remainder trusts.

Finally, in addition to the floor discussed above, the legislation added a "ceiling" as well affecting only those in the highest tax bracket of 37%. Donors in this tax bracket will no longer be able to realize the full 37% in tax savings from their deduction, for that percentage is now capped at 35%.

We Want to Help

We hope this guide proves helpful to you as you plan your charitable gifts. We have touched on just a few of the many creative charitable options available to you. If we can assist in any way in your planning process, please feel free to call on us.

The information contained herein is offered for general informational and educational purposes. The figures cited are accurate at the time of writing. State law may affect the results illustrated. This is not legal advice. Any prospective donor should seek the advice of a qualified estate and/or tax professional to determine the consequences of their gift. **Annuities are subject to regulation by the State of California. Payments under such agreements, however, are not protected or otherwise guaranteed by any government agency or the California Life and Health Insurance Guarantee Association.** A charitable gift annuity is not regulated by the Oklahoma Insurance Department and is not protected by a guaranty association affiliated with the Oklahoma Insurance Department. **Charitable gift annuities are not regulated by and are not under the jurisdiction of the South Dakota Division of Insurance.**



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