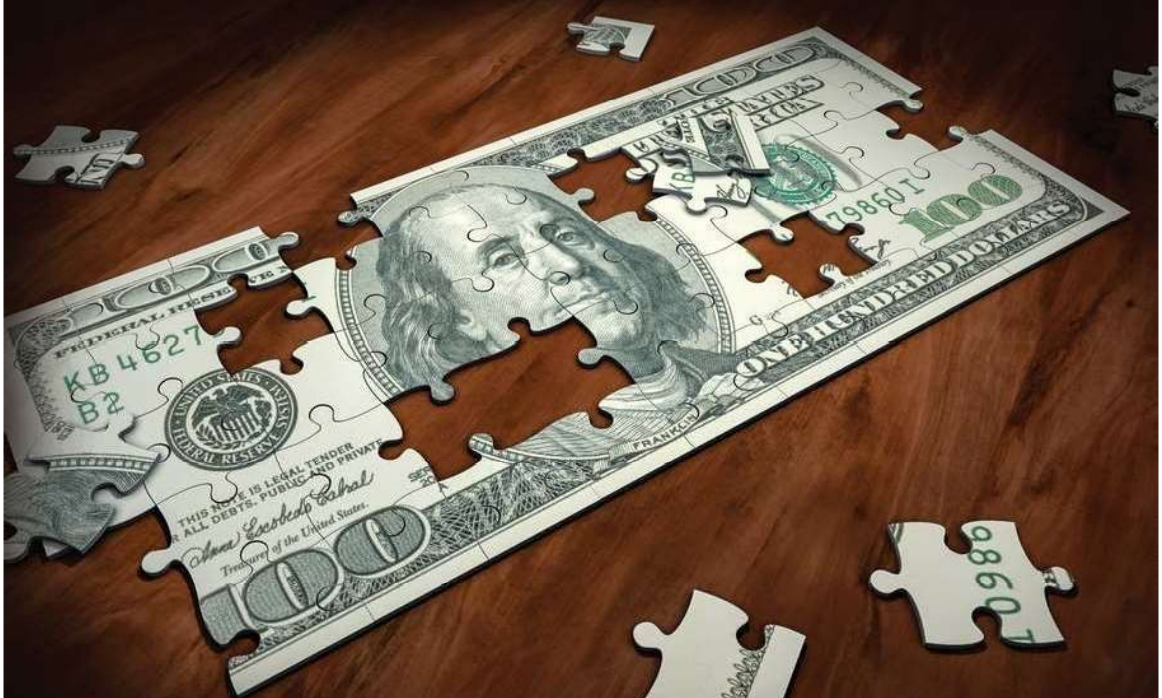
The Steward Plan

Understanding God's Design for Your Finances



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Important Disclosure

Personal finance is most importantly "personal." Each reader will be in a different situation regarding their age, debt, income, investments, health, etc. Therefore, it is not possible to write a book about personal finance that would provide one set of recommendations that is appropriate for every situation. Accordingly, please keep the following disclosure in mind as you read:

> *The recommendations provided in this book are educational in nature and not intended to be specific recommendations for any particular individual. The goal is to educate and inform the reader of available options, with the ultimate decision being theirs. Please consult the appropriate tax, investment, insurance, or financial planning expert before making any final decisions.*

Fortunately, the Bible is the Word of God—perfect, complete, and infallible. On it, we can place our trust. Focus first on the principles taught in God's Word, then consider the application of the principle to your exact situation. I hope, of course, that the recommendations provided in this book will help guide you to the course of action God would have for you.

CHAPTER 3

TITHE CHEERFULLY

As soon as the commandment was circulated, the children of Israel brought in abundance the firstfruits of grain and wine, oil and honey, and of all the produce of the field; and they brought in abundantly the tithe of everything.

2 CHRONICLES 31:5 (NKJV)

Imagine you are gathering with your family to celebrate Christmas. A beautifully decorated tree stands in the corner of the room with twinkling lights and presents galore underneath. A crackling fire warms the room as Christmas music plays softly in the background. The aroma of the just finished meal still floats throughout the room. Your family members, young and old alike, join together to exchange presents in a show of love and affection for one another. One by one, presents are handed to the excited recipients who anxiously await the opportunity to open a gift lovingly chosen for them.

Finally, when your turn arrives, a gift is placed in your lap. You open the attached card first and it says, "I know I'm supposed to give you something since it's Christmas. So, here's a gift. My duty is done for the year." How would you feel? Was the gift given in love or obligation?

Cheerful Giving

All too often, many Christians approach tithing with such an attitude, even if it's unintended. Obedience is important, they believe, so we give "our" money to the church because we're commanded to do so. But is that truly the command?

Certainly, we are to give to God's work. Proverbs 3:9 (NKJV) states, "Honor the Lord with your possessions, and with the firstfruits of all your increase." The giving of the firstfruits funds the church from a practical perspective, but more importantly, it's an outward acknowledgement that all we have is really God's. He blessed us with the ability to work, so even the paycheck we "earned" is really His. Deuteronomy 8:18 begins, "But remember the LORD your God, for it is he who gives you the ability to produce wealth."

More important than simply meeting some financial obligation, God looks to our hearts. Are we giving out of love for Him? Or out of obligation like the earlier story? The Scripture presents in no uncertain terms how we are to give: "Each of you should give what you have decided in your heart to give, not reluctantly or under compulsion, for God loves a cheerful giver" (2 Corinthians 9:7). Should you find yourself giving out of obligation, prayerfully reconsider your motives. Give in love, not grudgingly. With the right mental approach, we are blessed as we see God use our tithes and offerings to save souls and work wonders.

Be One of the Few

Unfortunately, statistics show that few Christians tithe. Among Christians overall, only 2% tithe (NP Source 2018), which is defined as giving 10% ("one-tenth") of one's income. Further, the trend is declining over time as, unfortunately, more Americans no longer identify with any religion (The Giving Institute 2015). Today's Christians are only giving 2.5% of their income. For perspective, during the Great Depression, Christians were giving 3.3%. Here are some more disappointing tithing statistics as of 2018 (NP Source 2018):

- Only 3–5% of Americans who give to their local church do so through regular tithing.
- Interestingly, when surveyed, 17% of Americans state that they regularly tithe.
- For families making $75,000 or more, only 1% of them gave at least 10%.
- 37% of regular church attendees and Evangelicals don't give money to church.

While the statistics are disheartening, we can choose a different path for our financial priorities. And it begins with the firstfruits, tithing to your local church.

Should you find your current financial situation to be dire and there appears to be no room in your budget to tithe, accept the challenge God laid out in Malachi. In Malachi 3:10 (NKJV), we find the only instance that God is calling us to test Him. "'Bring all the tithes into the storehouse, that there may be food in My house, and try Me now in this,' says the LORD of hosts, 'If I will not open for you the windows of heaven and pour out for you *such* blessing that there *will* not *be* room enough to *receive it*." Our Father owns "the cattle on a thousand hills" (Psalm 50:10) and He stands prepared to bless us for cheerfully trusting Him with our tithe.

It is important to note, however, that this is not a promise to make us rich if we tithe. It is a promise to "bless" us. Those blessings may come in the form of financial gain, or they may be in some other form. What is important is that we cheerfully give to Him, He receives it and will in turn bless us in a manner He sees fit. Regardless of the form it takes, we can be sure that His blessing will exceed our expectations. Truly, the giver of the gift (tithe) becomes the recipient.

How to Get to 10%

Many of my clients are struggling financially even before they consider tithing. Perhaps you are in this situation too. One can reasonably ask, "If I'm living paycheck to paycheck without tithing, how can I afford to tithe?"

Always remember the challenge from God in Malachi 3:10 mentioned earlier. Test Him. He's asking you to do so! Here are two ideas that may help. First, when you budget, make the tithe the ***first*** expenditure listed, not the last one (If there is any money left by then!). If your situation is too dire, then simply begin to give what you can to your local church. Maybe it's only 1% or 2% of your income. Slowly increase the amount over time, or perhaps do so when you get the next raise or you pay off a debt. I can't explain God's ways. But I do hold on to His promises. Commit to giving and start today. He'll handle the math!

The Tithing Question

So, what is ***the*** tithing question that has vexed Christians around the world for generation after generation?

Answer: Whether Christians should tithe off of their ***gross*** or ***net*** income! Kidding aside, the study mentioned earlier found that seven out of ten tithers do so based on their gross and not their net income (NP Source 2018). For what it's worth, my wife and I tithe based on our gross income. We are instructed to give our first fruits to God, not our "net" fruits! I've never seen in the Scripture where taxes paid (no matter how much) are excluded from your "increase" for the year. Money was also spent for food, for example, but that was still a part of your income for the year. Taxes are just an expenditure like any other (even though it's removed from your paycheck before you actually receive it).

This certainly isn't a salvation issue. God's going to fervently love you whether you tithe or not. All I can suggest is this: examine the Scripture and prayerfully consider what God would have you do. With only 3% to 5% currently giving, the issue isn't whether it should be off of gross or net; it's not being done by the vast majority of believers anyway. Remember: handling money in God's way can clear the space in your budget to tithe!

Tax-Efficient Tithing Strategies

We should look at our tithes and offerings as worship to God. We do so in recognition that He gave it all to us, and we give cheerfully in obedience and love for God and others. Giving for the singular purpose of potential tax benefits may be a prudent step financially, but it surely would not be an act of worship! This sort of attitude among believers regarding giving is short-sighted. That having been said, good stewardship requires us to manage His assets as well as possible, and this would include knowing the basics of our tax laws to pay as little tax as legally possible.

Our current tax laws present us with several strategies that may provide the giver with larger tax benefits than simply writing a check each week or month to contribute your tithe to the local church. These strategies may also apply to other charitable giving you may complete throughout the year. As we'll also see, the significant changes to the tax laws in 2017 (that applied starting in 2018) made these strategies even more valuable.

Romans 13:7 (NKJV) begins, "Render therefore to all their due: taxes to whom taxes are due…." Clearly, we are required by the Scripture to pay the proper amount of tax as determined by the laws of our government, whether we like the tax rules or not. I am as frustrated as any American when I read news reports of the rampant fraud, waste, and abuse throughout the various levels of government. But there is no provision in the Scripture to justify paying any less than what we actually owe per these laws.

However, structuring our financial affairs in such a way to minimize the legal amount of taxes paid is endorsed by our government. In the 1935 case before the US Supreme Court (Gregory v. Helvering), the majority opinion included the statement, "The legal right of a taxpayer to decrease the amount of what otherwise would be his [or her] taxes, or altogether avoid them, by means which the law permits, cannot be doubted." Translation: Structuring your financial affairs in a way that **complies with the law** and at the same time minimizes or eliminates your tax liability is the law of the land. Therefore, we can utilize these giving strategies to reduce our tax burden and still fully comply with the Scripture command given us in Romans 13:7.

Note: The strategies discussed are in compliance with current federal tax law at the time of writing. Changes may have occurred in the law between then and when you are reading about them. Please make sure you understand any changes. Also, state tax laws are not taken into consideration in the discussion of the strategies as each state is different. Please consult a tax advisor familiar with the laws in your state before implementing any of these strategies.

Strategy 1 – Donating Appreciated Securities

Assumptions for this strategy:

1. Investment assets (stocks, bonds, mutual funds, ETFs) are owned in a nonretirement brokerage account.
2. These assets have been owned for over one year.
3. The current market value for these assets is higher than when they were purchased (in other words, there are unrealized gains in the holdings).

Application of the strategy: Federal tax law allows for the **fair market value** (FMV) of a donated security to be the amount of the donor's itemized deduction, if the above conditions are met. The FMV is used instead of the original cost of the security and the gain you earned since you purchased the security is never taxed. The example below will explain this better.

Discussion of the strategy: The best way to understand this strategy is with an example.

- Noah purchased 100 shares of Ark Building Company, Inc. (ticker symbol ARK), a publicly traded company on January 2, 2015 for $20 per share—total cost: $2,000.
- As of January 21, 2019, the shares of ARK trade for $80 per share, so Noah's holding is worth $8,000.
- Noah would like to donate $8,000 to his church.
- Assume that Noah is in a 30% income tax bracket and a 20% capital gains bracket.

If Noah sells the shares for $8,000, he will realize a gain of $6,000 (sales price: $8,000 less; purchase price: $2,000 equals a long-term capital gain of $6,000). His tax on this capital gain would be: $6,000 times 20% capital gains rate, or $1,200. After paying the tax, Noah has $6,800 remaining (sales proceeds of $8,000 less the capital gains tax paid of $1,200). He can donate the $6,800 to the church along with another $1,200 of other money to reach his donation goal of $8,000.

Assume that, instead of selling the stock, Noah donates the shares of ARK to his church. As we read in the application note above, he will be credited with making a donation of $8,000 (the fair market value of the shares donated). As he donated the shares instead of selling them, there is no sale, so he will not owe any capital gains tax! The church will immediately sell the shares of ARK and receive the $8,000 in proceeds. As the church is a nonprofit, they will not have to pay tax on the capital gain.

With either of these options, the church received $8,000 in value and Noah is entitled to an $8,000 charitable deduction, taken as a part of his itemized deductions. However, he had to pay $1,200 in capital gains tax in the first scenario, but zero capital gains tax in the second one.

With the change in the tax law (via the **Tax Cut and Jobs Act of 2017**), there was a dramatic increase in the amount of the standard deduction for all filing status. Therefore, significantly fewer taxpayers will be itemizing under the new rules. With that in mind, does it still make sense for Noah to donate appreciated securities if he is *not* going to itemize?

The answer is yes! Even though he may take the standard deduction and thus not deduct the contribution, he still avoids the capital gains tax owed in the first scenario.

Strategy 2 – Establish a Donor Advised Fund

Assumptions for this strategy (the first three are the same as Strategy 1):

1. Investment assets (stocks, bonds, mutual funds, ETFs) are owned in a nonretirement brokerage account.
2. These assets have been owned for over one year.
3. The current market value for these assets is higher than when they were purchased (in other words, there are unrealized gains in the holdings).
4. You'd like to spread the donations to: (1) multiple charities, and/or (2) throughout the year (or multiple years).

Application of the strategy: Instead of donating appreciated securities directly to the charity (Strategy 1 – Donating Appreciated Securities), set up a Donor Advised Fund (DAF) to receive the appreciated securities, and then recommend grants from the DAF to the church or charity when you'd like (even over multiple years).

Discussion of the strategy: Strategy 1 presents taxpayers with tremendous potential tax benefits. However, there are a couple of limiting factors: (1) the charity has to be in the position to receive the appreciated securities (many are not); and (2) they have immediate access to the full donation, even if you prefer to spread it out over multiple months or years. The Donor Advised Fund (DAF) helps eliminate these factors.

The DAF is a charitable organization itself. They are designed to be able to receive appreciated securities, sell them after receipt, invest the money while it is in the DAF, then receive grant recommendations and make distributions to the recommended charities (if approved). Think of the DAF as simply an intermediary between the donor (you) and the ultimate charity you wish to bless (for example, your church). The DAF was set up to specifically handle donations of this type, making the donating process much easier for the donor and the ultimate donee.

Donations made to the DAF are irrevocable and the donor receives a tax deduction (like Strategy 1) for the FMV of the donated securities. While the DAF technically controls and owns the donated funds, the original donor retains the ability to "recommend a grant" to a qualified charity. Assuming the charity is qualified, the DAF will act on the grant recommendation and contribute funds as specified in the grant request. The donor does not receive a deduction for this part of the transaction as they received it when they put the funds into the DAF.

A few advantages of using a DAF are:

- A DAF simplifies the process for giving appreciated securities.
- The donor receives an immediate tax deduction for the FMV of the securities contributed, even if it takes multiple years for the DAF to distribute the funds.
- A DAF can offer anonymity for the donor, if so desired.
- The donor's gross estate value is lower, potentially saving estate taxes and bypassing the probate process for those assets.
- Future growth by the funds in the DAF are tax free.
- Use of DAF simplifies "itemized expense bunching," a strategy that will be more popular under the new tax law.

"Itemized Expense Bunching" Explained

"Itemized expense bunching" is, at its core, a strategy that pushes as many tax deductions as possible in one tax year to exceed the standard deduction and allow for itemizing. The other year(s), the taxpayer will have lower itemized deductions and will instead use the standard deduction. An illustration will make this clearer.

Assume Abraham and Sarah, a married couple filing jointly, have the following potential deductions:

- State and local income, personal property, and real estate taxes (SALT) of $15,000.
- Mortgage interest of $8,000.
- Contributions to their church of $5,000.

They also have a mutual fund in a brokerage account that is worth $10,000 that they purchased three years ago for $2,500.

Without the DAF: Their itemized deductions will be:

- SALT: $10,000 (The 2017 tax law now limits this deduction to $10,000 per year.)
- Mortgage interest: $8,000
- Contributions: $5,000
- Total itemized deductions: $23,000

Since the standard deduction for their filing status is $24,400 (in 2019), they would elect to use the higher standard deduction. They could donate ½ of the mutual fund in their brokerage account to their church each year and avoid the capital gain taxes that would be due if they sold the shares and donated cash (this is another example of Strategy 1).

Assuming their numbers were the same for next year, their two-year deduction total would be $48,800 (the $24,400 standard deduction for year one and year two).

With the DAF: Assume they donated the entire $10,000 in the mutual fund to the DAF in year one. Their year one itemized deductions would be:

- SALT: $10,000 (limited to $10,000 in the 2017 tax law)
- Mortgage interest: $8,000
- Contributions: $10,000 (the donation to the DAF)
- Total itemized deductions: $28,000

Since the $28,000 in itemized deductions is more than the $24,400 standard deduction, they would use the higher itemized figure for their tax return. In year two, their itemized deductions (assuming everything stayed the same) would only be $18,000 (the SALT of $10,000 and the mortgage interest of $8,000; they have no contributions in year two as they donated it all in year one to the DAF). Therefore, they would take the standard deduction in year two, bringing their two-year deduction total to $52,400 ($28,000 year one + $24,400 year two).

Note that by using the DAF, their total deductions for the two-year period was $3,600 more than without using the DAF. Further, with the DAF, they can have a portion of the fund sent to their church each month over the two-year period, allowing their church to have a more steady and predictable income stream. Under both scenarios, Abraham and Sarah's church received $5,000 each year.

Strategy 3 – Qualified Charitable Distributions (QCD)

Assumptions for this strategy:

1. Investment assets are being held in a tax-preferenced account like a 401k, 403b, 457, IRA, Keough, or other similar type of account.
2. The account owner is at least 70 ½ years old and therefore subject to required minimum distributions (RMDs) discussed below.
3. The account owner is charitably inclined and would like to donate money to his church and/or other charities each year.

Application of the strategy: Instead of receiving (and paying tax on) RMDs each year, the RMD is contributed directly to a qualified charity, satisfying the RMD requirement but not incurring income tax on the distribution.

Discussion on the strategy: No discussion of Qualified Charitable Distributions (QCD) is complete without first discussing Required

Minimum Distributions (RMD). RMDs are the means by which Congress mandates removal of a portion of tax-preferenced accounts each year. Generally speaking, once the account owner turns 70 ½ years old, they must take a set percentage of their account balance out of the IRA/401k/403b, etc. each year (Note: there are some exceptions to this general statement, so please speak to an advisor about your situation). When the RMD is removed, it becomes a "taxable event" and the account owner must claim the RMD as income on his/her tax return for the year.

Since an assumption for this strategy is that the account owner is charitably inclined, he/she will also be donating funds to a charity each year. These donations are deductible if the account owner is still itemizing deductions. As discussed earlier, with the higher standard deductions found in the new tax law, only a small percentage of taxpayers will continue to itemize. Therefore, while the donor has to claim the RMD as income, they may not get a corresponding charitable deduction.

Further, the increased income due to the RMD can also impact other areas of the account owners' taxes. These "stealth taxes" can appear in places such as:

- A higher percentage of their Social Security being subject to income tax
- Higher Medicare Parts B and D premiums (as they are means tested—the more you make, the higher your premiums).
- Loss of deductions/credits that are phased out if your income is too high, such as medical expenses and education tax credits.
- The loss of passive loss deductions (from, for example, rental real estate).
- Increased exposure to the 3.8% surtax on net investment income.[2]
- Loss of the ability to contribute to a Roth IRA if the taxpayer is still working.

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[2] This is an additional tax imposed by the Affordable Care Act ("Obamacare") on certain types of income (such as interest, dividends, capital gains, and rental income). It only applies if your income is above certain limits, which the RMD may result in. For more information, please see: https://www.irs.gov/taxtopics/tc559.

The bottom line is this: Eliminating the RMD from your taxable income may produce a lower tax liability than the alternative of claiming the RMD as income with a corresponding charitable deduction.

Enter the QCD: Instead of receiving the RMD from the IRA custodian, the account holder will request that the custodian send the RMD (or a portion thereof) directly to a charity as a QCD. This would satisfy the RMD requirement (in part or in whole) for the year and the account holder does not have to report the distribution as income. This will lower their Adjusted Gross Income (AGI), the amount on which many of the "stealth taxes" described above are calculated, potentially creating other tax savings.

Of course, since the contribution came from the IRA (for example) and not the account holder personally, there is no deductible contribution for the account holder. Remember, though, that the vast majority of tax payers won't itemize anyway, effectively costing them nothing! Even if they do still itemize, they are no worse off without the additional donation as they also avoided having to claim the RMD as income.

Simple QCD Example

Let's look at a simple QCD example to see the impact.

Assume that Adam and Eve are a married couple filing a joint return and both are over 70 ½ years old. Their RMD for the year is $10,000. Their other income includes:

- Social Security income of $24,000.
- Part-time work of $12,000.
- Pension income of $18,000.

Therefore, their total income, including the RMD, is $64,000. We'll assume for simplicity that they use the standard deduction ($27,000 in 2019, which includes the extra deduction due to their ages).

Without the QCD, their AGI would include the part-time work ($12,000), pension income ($18,000), a portion of their Social Security income ($5,000[3]), and their RMD ($10,000) for a total of $45,000. Their standard deduction ($27,000) reduces the AGI to a taxable income of $18,000. The tax (in 2019) on this amount of taxable income is $1,800.

Suppose instead that they **use the QCD**. The entire $10,000 RMD is given to a qualified charity. Therefore, their AGI is made up of only their part-time work ($12,000) and their pension income ($18,000). None of their Social Security is taxed as the elimination of the RMD reduced their AGI to a level low enough to avoid the requirement to claim any of it. Their new AGI ($30,000) is reduced by the standard deduction ($27,000), which results in a taxable income of $3,000. The tax on this amount is $300 or $1,500 less than shown above (without using a QCD).

Other QCD Considerations / Requirements

- QCDs are only allowed for IRAs, not workplace plans like 401ks or 403bs. If you still have a 401k balance at a prior employer, simply transfer it to an IRA and you will be eligible to complete a QCD.
- The gift must be directly from the IRA to the charity. You cannot receive the distribution and then pay the charity to qualify for a QCD.
- There is a limit of $100,000 per person per year.
- The donor cannot receive anything in return, even a "thank you" tote bag!
- The QCD will not be coded as such on the 1099-R sent the next year. Be sure to tell your tax preparer that it was a QCD to avoid erroneously claiming it as income.
- QCDs cannot be sent to Donor Advised Funds (Strategy 2) or private charities.

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[3] Social Security is taxed based on how much other income a taxpayer has. For this example, the taxable portion of their Social Security income is $5,000. Consult a tax advisor to determine the amount of your Social Security income that would be taxed, if any.

- The QCD must be the first dollars out of your IRA in a tax year. The first dollars distributed are always considered to be the RMD. So, if you've already taken the full RMD for the current year, you cannot do a QCD this year (for that portion of the RMD).

As noted earlier, be sure to check the current tax rules to verify that these strategies are still available.

Closing Thoughts

Paying the lowest, legal amount of taxes is our right as taxpayers and our requirement as a Christian steward. Utilizing tax-reducing strategies like these can allow a believer to use these savings to pay off debt, to build wealth, or even better, to increase giving for the furtherance of His Kingdom.

Will you make tithing the priority in your spending?
Do you trust God enough to test Him as He calls us to do?
Show you do by returning the tithe to the Giver of all we have.