Craig Wruck - Thu, 1/9/2025 - 12:10

You’re preparing an illustration, or maybe a marketing piece, and want to show the potential tax savings – both income and capital gains – from a planned gift. You’ll need to make several assumptions including the gift amount, ages, and tax rates. For the first two, gift amount and ages, you can be guided by what you know about your prospect or, for a marketing piece, your intended target market. But how are you going to select the tax rates?

It’s certainly appealing to show the largest possible tax savings, which argues in favor of using the highest possible tax rates: 37% for income tax and 20% for capital gains. (And you might even choose 40.8% for the income tax rate, because it’s conceivable that the 3.8% Net Income Investment Tax Surcharge might apply.)

Here’s the rub: very few taxpayers fall into the 37% tax bracket. Even fewer also fall into the 20% capital gains bracket. (And fewer still are subject to both the Net Investment Income Tax surcharge and the highest capital gains rate.)

Before we go on, let’s pause and review marginal and effective income tax rates. Since its inception more than a century ago, the Federal Income Tax has been a progressive system with higher rates for larger incomes. Currently, there are seven different income tax rates which apply depending upon the amount of taxable income. Here are the income brackets and tax rates for 2025:

Marginal Rate	Married Filing Jointly	Single
10%	$1 - $23,850	$1 - $11,925
12%	$23,851 - $96,950	$11,926 - $48,475
22%	$96,951 - $206,700	$48,476 - $103,350
24%	$206,701 – $394,600	$103,351 - $197,300
32%	$394,601 – $501,050	$197,301 - $250,525

35%	$501,051 - $751,600	$250,526 - $626,350
37%	$751,601 or more	$626,351 or more

Bear in mind, the rates are progressive, which means everyone pays 10% on their first dollar of taxable income and, as taxable income increases, they might pay a higher rate on additional income. To illustrate, consider a married couple filing jointly who have a taxable income of $300,000. Here is how their income tax bill would be calculated:

Taxable Income	Marginal Rate	Tax Due
First $23,850	10%	$2,385
Next $73,100	12%	$8,772
Next $109,750	22%	$24,145
Last $93,300	24%	$22,392
Total: $250,000		Total: $57,694

This couple's marginal income tax rate – the percent they paid on their last dollar of taxable income – is 24%, but their effective tax rate – the rate they paid overall – is approximately 19% (total tax of $57,694 divided by taxable income of $300,000). To be clear, if this couple makes a tax-deductible contribution, it will reduce their taxable income and save taxes at their 24% marginal rate. If they contribute appreciated assets, they can avoid capital gains tax too.

It might seem intuitive to pump up the tax savings by using the highest rates that could apply – 37% income tax (or maybe even 40.3%) plus 20% capital gains tax savings. Just look at the difference between an illustration using the highest rates versus more modest rates:

Assume contribution of appreciated assets worth $100,000 with a cost basis of $20,000		
Contribution Deduction	$100,000	$100,000
Income Tax Savings	$37,000 (at 37%)	$24,000 (at 24%)
Capital Gains Tax Savings	$16,000 (at 20%)	$12,000 (at 15%)
Total Tax Savings	***$53,000***	***$36,000***
After-tax Cost of Gift	$47,000	$64,000

But consider the following table which shows the percent of all tax returns that fall into each marginal income tax bracket:

Marginal Rate	**Married Filing Jointly**
10%	14.3%
12%	33.0%
22%	20.7%
24%	7.3%
32%	1.1%
35%	1.2%
37%	0.7%
NOTE: Due to the Standard Deduction, almost 20% pay 0%.	

The risk is this: using the 37% rate narrows your message to fewer than 1% of all taxpayers. More modest assumptions – like 24% income tax and 15% capital gains tax – would include about 10% of all taxpayers (and, arguably, a large share of those who have the financial wherewithal to be qualified major gift prospects).

Sure, the tax savings illustrated will be more modest, but consider two different potential follow-up conversations with a prospective donor:

> **Scenario 1:** You illustrated 37% income tax and 20% capital gains:
> Donor: “But my tax rates aren’t that high!”
> You: “Oh, I’m so sorry. You’re not as rich as I thought. Your tax savings are going to be less than I’ve just shown you.”
>
> **Scenario 2:** You illustrated 24% income tax and 15% capital gains:
> Donor: “But my tax rates are higher than that!”
> You: “Oh, congratulations! You’re richer than I thought. Your tax savings are going to be even more than what I’ve just shown you.”

Which conversation would you rather have?

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