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Kennebec Savings Bank

Investment Management & Trust Services

The Prudent Investor

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Philanthropy update

According to *Giving USA*, a new high-water mark was set in charitable giving in 2025. Over $600 billion was given to charity that year. This was a 4.1% increase over 2024 giving. All categories of givers increased, but charitable bequests rose by nearly 20%! This was perhaps surprising to those who had argued that the higher federal estate tax exemption enacted in 2016 could lead to reduced charitable bequests. The graphs on the next page illustrate the givers and the recipients in the *Giving USA* report.

Individuals were responsible for 64% of all gifts, totaling $394 billion. However, several changes to the income tax treatment of charitable gifts became effective this year. Many financial advisors suggested to their higher-income clients that accelerating charitable gifts into the 2025 tax year could provide greater tax benefits. See *Key changes for 2026* for details.

Oddly enough, giving away money effectively turns out to be almost as hard as making it and saving it is. Although there is no shortage of worthy charities, finding the right one and making the kind of financial impact one hopes for requires research and planning.

Resources

The internet is a terrific place to begin learning about philanthropy. Here are two places to try:

- ***BBB Wise Giving Alliance*** (www.give.org) monitors and accredits charities to provide greater donor confidence. Twenty standards are evaluated for each charity, covering governance, effectiveness, finances, and solicitation and informational materials.
- ***Guidestar*** (www.guidestar.org) compiles the data from IRS filings (Form 990) by tax-exempt organizations, as well as for thousands of nonprofits that are not required to file. Some 1.8 million tax-exempt organizations are covered. Access is available to annual reports, balance sheet data, and revenue and expenses information for the current year.

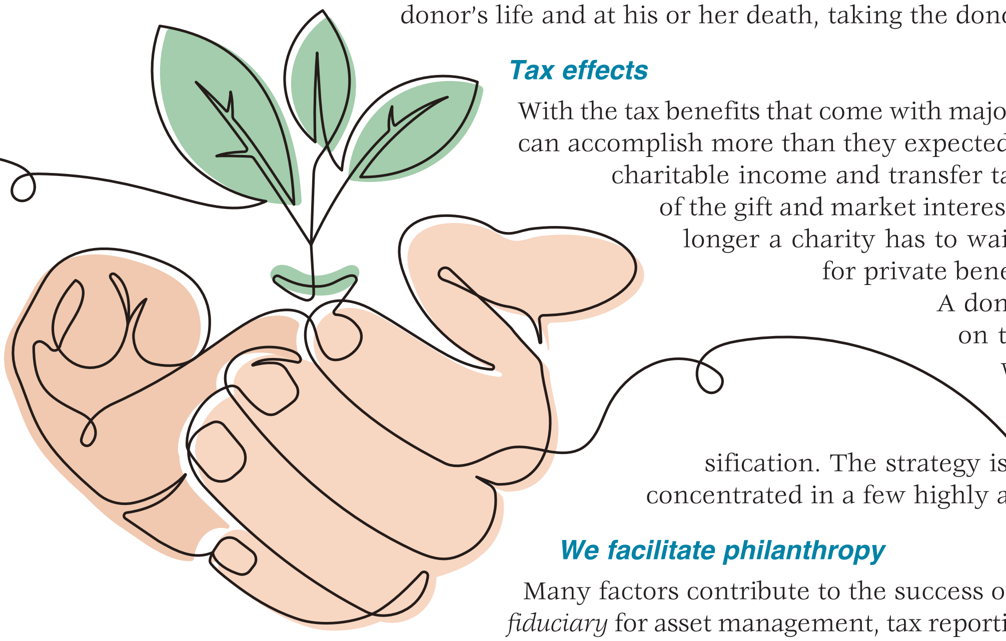
Strategies

When it comes to integrating your philanthropic objectives into your personal financial plan, we're here to help make the process easier.

- *Charitable trusts* can provide benefits to individuals while helping to achieve charitable goals. A *charitable remainder trust,* for example, can provide a lifetime income for the grantor, a spouse, or a family member before the trust assets pass to charity. The income may be a fixed dollar amount, or a percentage of the trust assets that varies with the investment returns. The *charitable lead trust*, in contrast, pays its income to charitable beneficiaries each year for a specified time period. At the end of the term, the assets return to family members. Each trust planning approach has its own income, estate and gift tax advantages.
- *Private foundations* also offer tax advantages, but they do not permit private financial interests. The donor, or members of the donor's family, can be active in the foundation and in the grant approval process, guiding the

organization as it implements the charitable mission.

- *Donor-advised funds* (DAF) have taken off in recent years. They are structured similarly to community foundations. The donor irrevocably transfers a sum of money to the DAF and receives a tax deduction for the charitable gift in that year. The actual grants to charity occur later, perhaps throughout the donor's life and at his or her death, taking the donor's advice into account.



Tax effects

With the tax benefits that come with major planned gifts, donors sometimes find they can accomplish more than they expected or dared hope. The precise amount of the charitable income and transfer tax deductions will depend on the structure of the gift and market interest rates at the time that the gift is made. The longer a charity has to wait for its funds, and the greater the benefit for private beneficiaries, the lower the deduction will be.

A donation of appreciated property avoids taxes on the built-in capital gain, and there's no tax when the charity sells the property. Thus, a charitable remainder trust can be a good way to achieve tax-free portfolio diversification. The strategy is especially appropriate when a portfolio is concentrated in a few highly appreciated assets.

We facilitate philanthropy

Many factors contribute to the success of a philanthropic plan. One is the choice of *fiduciary* for asset management, tax reporting and trust recordkeeping. We have extensive experience in these areas. We're staffed for it, know the legal and tax requirements, and do these things every day.

When you decide to move ahead with your major charitable giving, we can provide the services needed to implement your plan smoothly and effectively.

Give us a call to learn more.

Key changes for 2026

The One Big, Beautiful Bill Act of 2025 included several changes to the tax treatment of charitable gifts for 2026.

Non-itemizers. For those who do not itemize their deductions (the vast majority of taxpayers now), there is a $1,000 above-the-line deduction ($2,000 for married couples filing jointly) for cash gifts to qualified public charities. Gifts to donor-advised funds are excluded. According to the Tax Foundation, when a similar $300 deduction per filer was temporarily allowed during the pandemic, it was claimed by 29.4% of filers who used the standard deduction.

Itemizers. Itemizers face a floor on the deduction for charitable gifts of 0.5% of adjusted gross income (AGI). For, an AGI of $200,000, for example, 0.5% comes to $1,000. A $10,000 charitable gift would yield a $9,000 deduction.

High-income taxpayers in the 37% tax bracket will see the value of their itemized deductions, including for their charitable giving, limited to 35%.

The Tax Cuts and Jobs Act temporarily lifted the limit on the deduction for cash contributions to charity to 60% of AGI. This provision was made permanent. The limit for non-cash contributions is 50% of AGI.

Who gave to charity in 2025?

Source	Amount ($billions)	% increase from 2024
Individuals	$394.20	4.1%
Foundations	$117.15	5.7%
Bequests	$62.19	19.7%
Corporations	$43.67	3.1%
Total	$617.20	5.7%

Who were the recipients in 2025?

Type of organization	Amount received ($billions)
Religion	$151.58
Human services	$99.50
Education	$92.01
To foundations	$79.05
Public-society benefit	$72.06
Health	$61.43
International affairs	$33.02
Arts, culture and humanities	$27.31
Environment and animals	$24.57

Data: *Giving USA 2026: The Annual Report on Philanthropy for the Year 2025*, a publication of Giving USA Foundation, 2026, researched and written by the Indiana University Lilly Family School of Philanthropy. Available online at **www.givingusa.org.**

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How to head off a will contest

How can one be confident that one's will won't be challenged by an unhappy heir? One approach is with a *no-contest provision,* also called an *in terrorem* or *forfeiture* clause. It provides that a beneficiary who contests the will loses at least some, and typically all, of the benefits given under the will. In terrorem provisions are one of the most frequently used contest-prevention techniques. This widespread use is due to the technique's low cost (a few extra lines in the will), low risk (no penalty if the clause is declared unenforceable), and its potential to effectuate the testator's intent (property passing via the will rather than through intestacy or under a prior will).

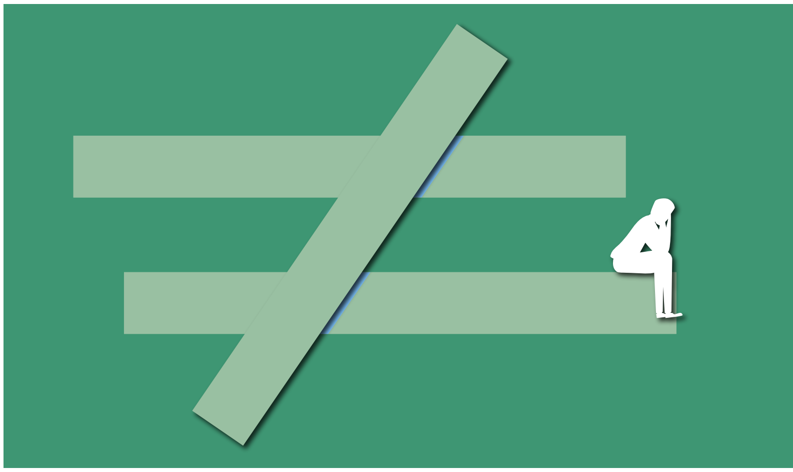
Most states uphold forfeiture provisions. Even if in terrorem provisions are valid and enforceable, they tend to be unpopular with the courts and so are strictly construed. Courts avoid forfeiture unless the beneficiary's conduct comes squarely within the conduct the testator prohibited in the will. Courts frequently treat the beneficiary's suit as one to construe or interpret the will, rather than as one to contest the will, to avoid triggering a forfeiture.

For a no-contest provision to deter a will contest effectively, it must be carefully drafted to place the disgruntled beneficiary at significant risk. If a testator leaves nothing or only a relatively small amount to the heir he or she wishes to disinherit, a no-contest provision will have little impact because the heir gains tremendously if the will is invalid and loses little if the will and accompanying no-contest provision are upheld. Assume that an heir would receive $100,000 under intestacy and $5,000 in the will. The heir is likely to risk a sure $5,000 for a potential $100,000. However, if the testator leaves the heir a substantial sum, e.g., $50,000, the heir will hesitate to forfeit a guaranteed $50,000 for fear of taking nothing if the will is upheld, even though the heir would receive a $100,000 intestate share if the will is invalidated. However, the heir would not actually receive $100,000 because most attorneys accept will contest cases on a contingency basis, so the heir is likely to net only about $65,000.

The testator should name an alternate recipient of the property that is subject to forfeiture under a no-contest provision. This provides someone with a strong interest for upholding the will and the forfeiture provision. This contingent beneficiary, especially if it is a large charity able to elicit the support of the state's attorney general, may be able to place significant resources into fighting the contest.

The problem with explanations

An explanation in the will of the reasons motivating particular dispositions may reduce will contests. For example, a parent could indicate that a larger portion of the estate is being left to a certain child because that child is mentally challenged, requires expensive medical care, supports many children, or is still in school. If the testator makes a large charitable donation, the reasons for benefiting that particular charity may be set forth, along with an explanation that family members have sufficient



assets of their own. The effectiveness of this technique is based on the assumption that disgruntled heirs are less likely to contest if they understand the reasons for receiving less than their expected share.

It is possible, however, for this technique to backfire. The explanation may upset some heirs, especially if they disagree with the facts or reasons given, and thus may spur them to contest the will. Likewise, the explanation may provide the heirs with material to bolster claims of lack of capacity or undue influence. For example, assume that the testator's will states that one child is receiving a greater share of the estate because that child frequently visited the aging parent. Another child may use this statement as evidence that the visiting child unduly influenced the parent. If the explanation is factually incorrect, heirs may contest on grounds ranging from insane delusion to mistake, or assert that the will was conditioned on the truth of the stated facts.

An alternative approach for testators insistent on discussing their motivation is to provide explanations in a separate document or audio/video recording that could be produced in court if needed to defend a will contest, but which would not otherwise be made public.

The living trust alternative

A revocable living trust is a useful financial management tool with an important estate-planning dimension. During the grantor's life, the trustee manages the assets, distributes income and pays expenses per the trust agreement. This can be especially helpful if the grantor experiences a period of incapacity.

At the grantor's death, the living trust offers these advantages:

- In most states, the trust avoids probate, reducing estate settlement costs and speeding the delivery of financial resources to beneficiaries.
- The terms of the trust do not become a matter of public record, creating a zone of financial privacy.
- The trust may have dispositive provisions, just as a will has. If the trust was operative during the grantor's life, it is hard to challenge its terms, or to argue that another document should take precedence.

Still working?

The general rule is that Required Minimum Distributions (RMDs) from qualified retirement plans must begin once a taxpayer reaches age 73. The amount of the RMD is a percentage of the value of the account at the close of the prior year. RMDs may be taken at any time during the tax year.

There is a limited exception to the RMD rules for those who continue working into their 70s. In that case, no RMD is required from the employer's plan until there is a separation from service, provided the plan allows for the delay. The exception does not apply to any traditional IRAs the employee may have, nor does it apply to retirement accounts at previous employers. It also does not apply to SEP or SIMPLE IRA plans provided by the employer.

The phrase "still working" is not defined, but full-time employment is not required.

No exception for 5% owners

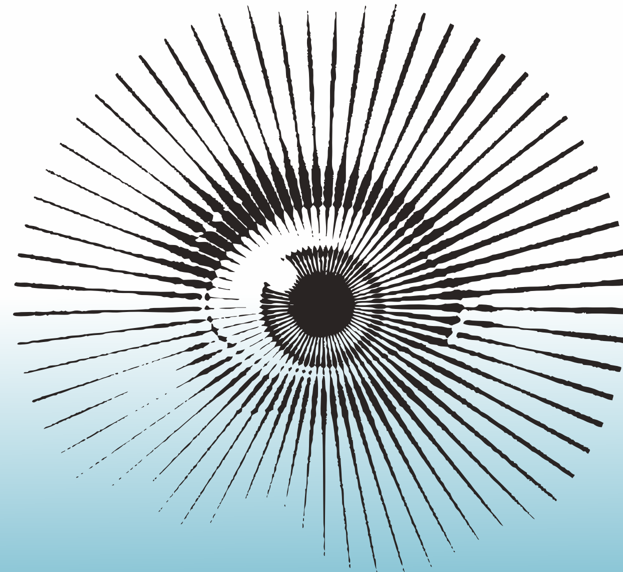
If the employee owns more than 5% of the company, this exception is not available. The employee must begin taking RMDs at age 73. Ownership is tested only at age 73. Assume that an employee who owns 10% of a company sells that interest at age 74. That does not create a right to defer future RMDs if the employee continues to be employed.

What's more, ownership in this context includes the tax code's attribution rules. Ownership by the employee's spouse, children or grandchildren is attributed to the employee. Thus, in a family business situation giving the ownership interest to family members will not change the RMD obligation.

Upsides and downsides

The benefit of delaying RMDs for as long as possible is to maximize the tax-deferred growth in the account. On the other hand, the percentage factor for the RMD becomes larger every year, so the deferral will mean that the eventual RMDs will still be larger. That means larger income taxes, and potentially higher taxes on Social Security benefits and other adverse tax effects.

Consult your tax advisors regarding your plans for your retirement income.



Required.
Minimum.
Distributions.

RMDs from qualified retirement plans need to be handled with care but should not be a source of anxiety.

Talk to a trust professional to learn more.

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