ARE MOST OF YOUR CHARITABLE GIFTS IN CASH?

You May Be Missing Out on Important Tax Benefits

Jeff Huizenga, CFP®, ChFC®, MSFS®
Director of Wealth Strategies

Although each of us has a different motivation for giving, collectively as a nation the U.S. continues to lead the world in philanthropy. Despite our vast political divisions as well as the economic and social upheaval brought on by an unprecedented global pandemic, Americans managed to gift more than $470 billion to charities in 2020 (a 5% increase from the previous year, as well as an all-time record amount).[1]

Clearly, income and estate tax deductions aren’t the principal driver of this generous spirit, but they are, nevertheless, a valuable secondary benefit that investors should take advantage of when and where available. Unfortunately, recent tax law changes that dramatically raised the standard income tax deduction ($12,950 for individual filers and $25,900 for married couples filing jointly in 2022) have resulted in far fewer people itemizing their deductions, but in order to claim a tax deduction on your charitable gifts of cash or property, you must:

- Itemize your deductions;
- Ensure that the gift is made to a qualified charity; and
- Meet certain documentation/substantiation requirements (e.g., a bank record or an acknowledgement from the charity showing its name, date and the amount of the contribution).

However, there are several ways to still enjoy tax benefits from your charitable giving even if you don’t itemize deductions every year.

Gifting Highly Appreciated Assets

Instead of gifting cash to a qualified charity, consider donating shares of your highly appreciated stock, real estate or business interest. This can be extremely advantageous as it not only allows you to avoid paying any capital gains taxes on the gifted securities, you’re also permitted to take a charitable deduction for the full current market value of the asset.

Let’s assume you own 1,000 shares of Microsoft in your taxable account that you purchased a decade ago. You originally paid $20,000 for the shares and they’re now worth $150,000. If you decided to sell your holdings, you’d be liable for $30,940 in long-term capital gains taxes ($130,000 of appreciation x 23.8% tax rate).[2]

Alternatively, you could donate those shares to charity. Not only would that allow you to avoid the $30,940 tax liability, you’d also be able to claim a charitable deduction for the full fair market value ($150,000) of the gifted stock. Keep in mind, however, that your maximum annual charitable deduction is limited to 30% of adjusted gross income (AGI) for contributions of stock held for one year or longer, but any excess deduction can be carried forward up to five years.

Additionally, since the charity isn’t subject to any capital gains on the gifted shares, they’ll be able to sell them and realize full market value to support their valuable mission.

[1] Giving USA 2021: The Annual Report on Philanthropy for the Year 2020, June 2021

[2] Assumes your gains would be subject to the 20% federal long-term capital gains tax rate along with a Medicare surtax of 3.8%;but doesn’t consider any applicable state or local taxes.

ARE MOST OF YOUR CHARITABLE GIFTS IN CASH?

You May Be Missing Out on Important Tax Benefits

Jeff Huizenga, CFP®, ChFC®, MSFS®
Director of Wealth Strategies

Gifting Excess RMDs

If you're retired, age 72 or older, and lucky enough to not need the required minimum distributions (RMDs) from your tax-deferred IRA as an additional source of retirement income, the IRS' Qualified Charitable Distribution (QCD) provision allows you to make a tax-free distribution directly to any qualified charity instead. It's an easy way to satisfy your annual RMDs to fund a sizable charitable gift (up to $100,000 per year, per taxpayer) while not having to pay any income taxes on them—and avoid having large RMDs potentially push you into a higher tax bracket, trigger a phase-out of other deductions or avoid higher Medicare premiums.

We often encounter married clients in their mid-to-late 70s whose RMDs (when added to other income sources such as Social Security, pensions, annuities and investment income) would push them into a higher income tax bracket and/or subject them to a higher capital gains tax rate. By only taking a portion of their RMDs as a distribution and gifting the balance to their favorite charity as a QCD, they may be able to reduce modified adjusted gross income (MAGI) enough to drop down to a lower tax bracket or lower Medicare premiums, while at the same time avoiding income taxes on the gifted RMD amount.

Gifting through a DAF

Donor Advised Funds (DAFs) are irrevocable charitable giving accounts that are offered through sponsoring organizations like Schwab, Fidelity and Vanguard. The accounts are easy to establish, simple to manage and can be funded with a range of traditional assets—including cash, stocks, bonds and funds. Some DAFs even accept donations of real estate or other illiquid assets (e.g., fine art, collectibles or business ownership interests).

Once you open and fund a DAF account, you then select a strategy for how you want your funds (which are liquidated when contributed) to be invested. You're then free to begin recommending grants to any qualified charities you choose to support.

One of the key benefits of DAFs from a tax perspective is that because your gifts into the fund are irrevocable, you enjoy an immediate tax deduction (typically up to 60% of your AGI for cash contributions and up to 30% of your AGI for appreciated assets) but have the flexibility to take as much time as you want to distribute the funds.

Bunching DAF Donations

Because of the current higher standard deduction, a growing number of philanthropically-minded investors are pursuing a strategy of bunching several years' worth of DAF donations into a single year (e.g., instead of contributing $10,000 annually, making a single $50,000 contribution every five years) and opting to itemize their deductions for the year in which they make their contribution.

There's no 'right way' to give. The extent of the commitment you want to make (as well as the needs of the organizations you wish to support) will dictate the best charitable strategy. It doesn't take tremendous wealth to create a meaningful impact within your community and in the lives of others. All it takes is a passionate desire and commitment to make a difference.

However, these and other strategies (including charitable remainder trusts, charitable lead trusts and private foundations) require thoughtful and carefully timed planning to realize the maximum tax benefit from your gifts.

Reach out to your DVI Relationship Manager and talk to them about your specific charitable intentions. Together you can work on crafting a giving approach that best integrates those goals into your overall wealth plan.