Charitable Giving: Tax-Smart Ways to be Generous

Americans are charitable by their very nature. As a country, Americans donated $373.25 billion in 2015, a 4.1% increase from 2014, according to Giving USA Foundation. Individual households donate an average of nearly $3,000 each year.[1]

You likely get tremendous satisfaction from making cash donations to causes you want to support. The fact that the IRS allows taxpayers to deduct some or all their cash and non-cash donations doesn't hurt either. It's worth a chat with your financial advisor to make sure that while you are doing good, you are also taking advantage of all the tax benefits the government is willing to give you.

Believe it or not, there are several strategies to consider when trying to maximize the tax benefits of your cash donations.

Meet QCDs

One new approach, made permanent in 2015, can benefit retirement savers who have reached age 70½ and are required to start taking yearly minimum distributions from their retirement account. Tax-free Qualified Charitable Distributions (QCDs) allow you to give up to $100,000 per year ($200,000 for married couples with individual IRAs) to qualified public charities by taking distributions from your IRA. (To ensure that donations to your preferred charity are tax-deductible, go to http://go.efficientadvisors.com/e/91522/app-eos-/4359sn/219004393) To qualify, you must be at least 70½ at the time you make the distribution, and you must have the withdrawal check be made out to the charity and not to you. You can tap either traditional or Roth IRAs for this strategy, but it is the use of traditional, pre-tax IRA contributions that makes QCDs a tax-benefit multiplier. Not only do you avoid the necessity of including your IRA distribution with your gross income for the year, but you can also take advantage of the tax deduction for charitable giving.

Donate appreciated shares of stock or mutual funds

The eight-year bull market we've been riding has likely produced gains in your portfolio. In 2017, you may want to consider doing some portfolio rebalancing that—in the case of charitable giving—can provide some nice tax benefits. Donating appreciated shares of stocks or funds directly to a qualifying charitable organization offers two tax benefits: You are not subject to capital gains tax on the appreciation of your shares. In addition, you may be able to claim the full value of the donation as a tax deduction.

Charitable Remainder Trusts (CRTs)

These are more complex vehicles, most useful to those who know they have assets—either property, securities or cash—that they plan to donate to charity. CRTs can be set up in one of two ways: As a Charitable Remainder Annuity Trust or as a Charitable Remainder Unitrust. Both are irrevocable once established, and both offer some tax advantages.

Both types of charitable remainder trust are a "split interest" giving vehicle that allows you to make contributions to the trust and be eligible for a partial tax deduction, based on the CRT's assets that will eventually pass to charitable beneficiaries. You can name yourself or someone else to receive a potential income stream for a term of years, no more than 20, or for the life of one or more non-charitable beneficiaries, and then name one or more charities to receive the remainder of the donated assets.[2]

The unitrust distributes a fixed percentage of the trust assets to the beneficiary each year (revalued annually), and the donor can make additional contributions. The annuity distributes a fixed annuity amount each year, and additional contributions are not allowed.[2]

Donor-advised Funds

Donor-advised funds are the fastest growing charitable giving vehicle in the U.S.—as of 2015, Americans held more than 269,000 donor-advised accounts with over $78 billion in assets.[3] The funds' popularity stems from their flexibility and convenience, as well as the tax advantages they offer.

When you donate to your donor-advised fund, you're making a tax-deductible donation to an organization, such as a community foundation or even a charitable fund at an investment firm, which holds the account. Your financial advisor can help you select a donor-advised fund and even manage the assets on your behalf. You don't have to have a specific charitable cause in mind when you make the donation, but you can still take the deduction. Then, your donation is invested, based on your preferences, so it has the potential to grow, tax-free, while you're deciding which charities to support.[4] When you decide where to steer the money, you advise the fund and the donation is made.

Talk with your financial advisor about these and other giving strategies.

Footnotes:

[1] National Philanthropic Trust: Charitable Giving Statistics

[2] Fidelity.com: Charitable Remainder Trusts

[3] NPTrust: Donor-Advised Fund Report

[4] Fidelity.com: What is a donor-advised fund?

Please contact our firm for additional information

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