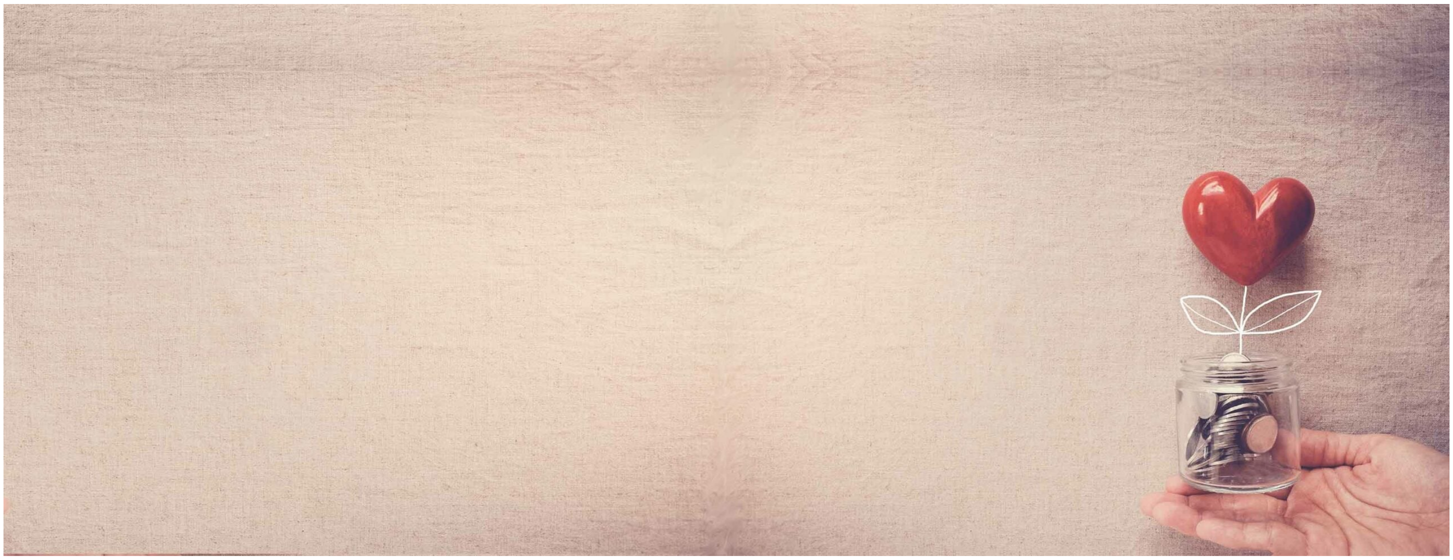

A Guide to Tax-Smart Charitable Giving

Even with the obstacles of the past few years, charitable giving is on the rise. In fact, The National Philanthropic Trust says that 86 percent of affluent households maintained or increased their giving in 2020, despite uncertainty about further spread of COVID-19. Charitable donations are up 5.1 percent overall, according to Giving USA. But we're not just talking about simple cash donations.

When it comes to giving, Eric Bailey, head of endowments and foundations at CAPTRUST, says he sees a focus on tax-efficient methods of giving. There are several ways to support a nonprofit *and* reap the tax benefits. “We're initiating creative tactics with our wealth management clients who are thinking about a cash contribution,” Bailey says. “We'll go through different scenarios to help the donor understand other ways to give, rather than just writing a check.”

Donating Appreciated Securities

Donating appreciated securities—stocks or bonds that have increased in value since purchase—can provide major benefits to both the donor and the nonprofit. “Gifting shares of a stock can be more efficient than writing a check,” Bailey says, “because the donated stock is typically free of capital gains taxes.” This could mean savings of tens of thousands of dollars of capital gains taxes, depending on the stock's value, and could help maximize the value of your gift.

For example, a stock with a current value of $50,000—originally purchased for $8,000—could result in $12,000 in capital gains taxes when sold (assuming a 28% tax rate), leaving only $38,000 for the nonprofit. But when the stock is donated instead of sold, capital gains tax is avoided on the gift, allowing the full $50,000 to help the nonprofit fulfill its mission.

Donating appreciated securities can result in giving more money to the organizations you care about.

Donor-Advised Funds

When you donate money to a donor-advised fund (DAF), the funds are set aside in a 501(c)(3) account with a third party. The money is then available to distribute at your discretion to your charities of choice. The National Philanthropic Trust's 2021 Donor-Advised Fund report notes that the number of DAFs has increased 36.4 percent from 2016 to 2020.

"A donor-advised fund is a qualifying charity, so you can immediately take that deduction before it's distributed," says Steve Morton, principal and financial advisor at CAPTRUST. Relocating assets like appreciated securities, property, or cash into a donor-advised fund—depending on the amount donated—may allow you to itemize deductions, which may lower your tax bill.

With a DAF you can be more strategic by considering the timing of your donations to maximize your itemized deductions. Bunching charitable donations into a single year could provide an itemized deduction when you need it most. Then, the money is there to distribute on your time and at your discretion. "I find it easier to give from a donor-advised fund, because you don't think about it as your money anymore," says Bailey.

Moving money into a DAF lets you take a charitable tax deduction of the donation's full market value. It's important to note that the amount of your donation's deduction is based on your adjusted gross income (AGI), and any unused deduction can be carried up to five additional years.

Donor-advised funds can be especially helpful for clients nearing retirement. "It could be beneficial to put assets into a DAF and take the tax deduction when you are at your highest earning potential," says Morton, "typically when someone is close to retirement."

Morton says many of his clients like to make anonymous gifts. "With a donor-advised fund, the gift is acknowledged directly to the third party that holds the account. It's much easier to make an anonymous gift that way."

Qualified Charitable Distribution

Over 72 years old? If so, you must make annual withdrawals, known as required minimum distributions (RMDs), from your individual retirement account (IRA). Using your RMDs to fund qualified charitable distributions (QCDs) to your favorite charities is a tax-friendly method of giving, eliminating the income tax while simultaneously satisfying some or all of your yearly RMD.

“Retirees typically don’t have a lot of itemized deductions. The standard deduction is so high thatmost can’t deduct their charitable donations,” says Morton. Instead of a traditional charitablededuction, you can utilize QCDs in your tax-saving strategy.

“Many clients aren’t ready at 72 to take their required distributions from their IRAs and don’t want to pay taxes on them. QCDs are an easy solution and something to consider.”

Keep in mind that the 2022 maximum donation from your RMD is $100,000 per person, and the gift must come directly from the IRA to the charity.

Charitable Remainder Trust

Funding a charitable remainder trust (CRT) is another option for tax-efficient giving. Assets gifted into a CRT create income for you and your beneficiaries. Plus, the leftover is eventually donated to one or more nonprofits that you support. Income from the CRT and the ultimate gift to the charity can appreciate based on how the assets are invested within the CRT.

“A charitable remainder trust is a great strategy for appreciated assets,” Morton says, because you receive a partial tax deduction based on the assets gifted into the CRT, depending on a number of factors.

The assets remaining in the CRT must go to a qualifying nonprofit after the income distribution term ends. This time period can cover either the lifetime of the beneficiaries or up to 20 years.

“Designating a charity as a beneficiary through a CRT is a perfect way to give back,” says Morton. “There are tax benefits for you now, and down the road a charity gets money as well. It’s a win-win.”

Everyone’s situation is different, so consult your tax and financial advisors for the best option for your charitable giving. Have a nonprofit in mind that you want to support? Talk with their team about their preferred way to receive a donation.
