MIDWEST TRUST
FCI ADVISORS

WEALTH PLANNING INSIGHTS

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CHARITABLE GIVING STRATEGIES:
MAXIMIZING THE TAX BENEFITS OF YOUR DONATIONS

Like many investors, our clients are often seeking ways to fulfill their charitable intentions in a tax advantageous manner. While achieving tax savings through charitable giving has become more challenging in recent years, a number of relatively simple strategies still allow donors to achieve benefits. Here, we have summarized four methods of charitable donation and the advantages and limitations of each.

Itemized Deductions

First, let's consider the most common method of charitable giving- simply donating cash and deducting the amount on your next year's tax return. This strategy is simple and easy to execute; however, the tax benefit associated with simple cash donations is no longer available to many tax payers. Following 2017's tax reform legislation, which increased the standard deduction significantly, far fewer filers are itemizing their deductions at all. This means that, unless you are giving large amounts to charity in a single year, you may not clear the threshold to receive any additional tax benefits.

Transfer of Securities

Many donors may not realize how simple it can be to donate marketable securities rather than cash. Appreciated assets can simply be transferred directly from your investment account to that of the charitable organization, assuming your chosen recipient is equipped to receive them. When donations are made in this way, you avoid the realization of any capital gains associated with the position; as such, this strategy works particularly well with highly appreciated securities. The income tax deduction that results from such gifts is generally equal to the fair market value of the asset transferred, though it should be noted that avoidance of capital gain taxes can be of value even if you remain subject to the standard deduction.

Use of a Donor Advised Fund

Donor Advised Funds (DAFs) are established with a public charity such as your local community foundation. Donations made to your DAF are deductible immediately, but the donated funds can be held and invested by the public charity until the donor subsequently recommends that it be granted out to another charitable organization. This structure allows donors to "bunch" multiple years' worth of giving into a single year - even if the donor is uncertain to whom, when and in what amounts they would ultimately like to grant the funds.

Donor Advised Funds have long been useful for managing notably high income years. In the context of the increased standard deduction they are also being used to donate enough to surpass the standard deduction in certain years, while then making consistent, smaller future grants out of the DAF. Savvy investors often combine this strategy with the transfer of appreciated securities - funding their Donor Advised Fund and avoiding capital gains at the same time.

Qualified Distributions from Traditional IRAs

Investors who are already in Required Minimum Distribution (RMD) status – owners of traditional IRAs who are over age 70 ½- have access to a particularly effective form of charitable giving- Qualified Charitable Distributions (QCDs). Eligible IRA owners can make transfers to charitable organizations directly from their IRAs. Such distributions can help satisfy your annual RMD, while also not appearing on your tax return as income at all. This means that QCD transfers can circumvent both the standard deduction as well as Adjusted Gross Income (AGI) limitations (discussed below). They do have their own limit, though, of $100,000 per year.

Be sure to verify that your intended recipient is qualified to receive QCDs; notably, Donor Advised Funds and private foundations are not eligible. Another noteworthy restriction: owners of Inherited IRAs must still be over age 70 ½ to make QCD gifts, even if they are currently subject to RMDs.

Keep in Mind

When utilizing any charitable giving strategies, it's important to be cognizant of limits on annual deductions; while the limits for charitable giving vary depending on the asset being donated and the type of organiziation receiving the donation, most commonly 30% to 50% of your Adjusted Gross Income (AGI) can be deducted in a single year. Deductions from donations above the applicable limit in a single year must be carried forward into future years.

For more information about these strategies or our Wealth Planning Services, please contact your relationship team.