Retirement Daily

Your Money

Why You Should Have a Charitable Giving Plan

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By Sandra Adams

For many of us, giving back is a big part of who we are. It may be our place of worship, our alma mater, or to a local or national charity that touches our heart in some way, but we feel a tug to give back to these organizations for a part of what we have each year or at some point during our lifetimes.

And as we accumulate more wealth - generally as we approach our retirement years - we have more to give. It is at this time that it generally makes the most sense to have a Charitable Giving Plan to both maximize our ability to give to these organizations and to help minimize the tax impact to our own financial plans.

The Tax Cuts and Jobs Act that went into effect for the 2018 tax year made planning for charitable giving on a tax-efficient basis even more challenging. Why? Due to changes in itemized deductions, like the $10,000 cap on state and local taxes and the elimination of miscellaneous deductions, and the increase in standard deductions ($12,000 for single filers, $24,000 for married filing jointly and $18,000 for head of household filers). The result: even with charitable contributions still eligible for itemized deductions, fewer of us as tax filers will have enough in itemized deductions to beat what we can get by using the standard deduction we are eligible for.

So, given our fairly new tax policy, what are the options we should be considering as we look at putting together our annual charitable giving plan?

1. Donate appreciated securities
2. Lumping contributions (consider the use of a donor-advised fund or DAF)
3. Take advantage of qualified charitable distributions (QCDs)

Strategy 1: Donate Appreciated Securities

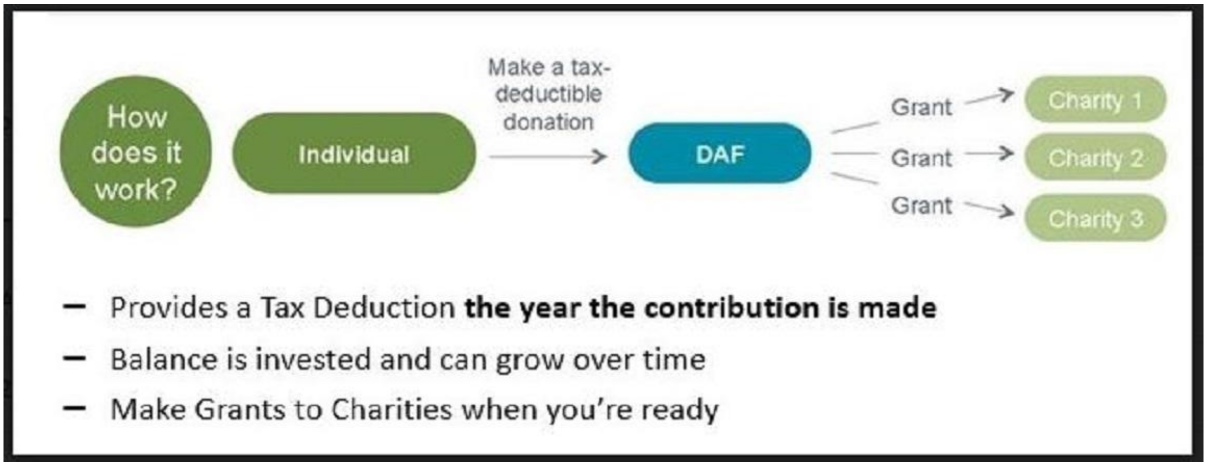
To take full advantage of this strategy, you would need to be in a position to use itemized deductions for the current tax year. You would also need to do some advance planning, and in some cases reframe how you think about some of your gifting. Why do I say this? For many folks, giving to particular charities or places of worship has been something they have done in the past in cash or on a periodic weekly or monthly basis (i.e. passing the basket during Sunday worship service). To utilize this strategy, it makes the most sense to gift in a larger amount once or twice a year, thus lumping the amount you might normally gift in smaller amounts throughout the year.

How does donating appreciated securities work? You gift shares of appreciated stock or mutual fund that you own (one that you purchased that has appreciated in value over time) to a qualified 501c(3) organization or charity. You receive credit for the donation and can declare it on your itemized deductions for tax purposes. The charity receives the shares and is able to sell them to use the proceeds for their organization; IRS rules provide that no capital gains tax is due on appreciated securities sold by non-profit organizations. You get a charitable deduction and pay no capital gains tax on the appreciated security, and the non-profit receives their donation and pays no capital gains tax on the appreciated security -- a win-win.

Strategy 2: Lumping Contributions/Using a Donor Advised Fund

Many taxpayers may not have enough deductions each and every year to use the itemized deductions over the standard deduction. However, for some, it can make sense to lump multiple years' of charitable donations into a single year to get them over the standard deduction hurdle. Using appreciated securities for these charitable gifts at the same time multiplies that tax impact by avoiding the capital gains tax on the gifts at the same time.

One vehicle that can be used to facilitate this strategy is a donor-advised fund, or DAF. A DAF is a program sponsored by either a public charity or financial institution that allows a client to make an irrevocable charitable contribution, take advantage of an immediate tax benefit, and then recommend grants to qualified charities from the DAF over time. You remain in control of the funds in the DAF. You do not get subsequent charitable deductions for grants made out of the DAF.



Strategy 3: Qualified Charitable Distributions

To be eligible to use this strategy, you have to be over age 70 ½ and taking required minimum distributions (RMDs). Qualified Charitable Distributions, QCDs are distributions made directly from your IRA account to a qualified charity; they can be made as part of your required minimum distribution in a given tax year and distributions to charities can be as much as $100,000 in a given tax year. Any distributions made directly from your IRA to a qualified charity are not taxable as income to you. This strategy for charitable giving is the most efficient for anyone over age 70½, especially if they find they will not have enough in deductions to itemize.

An important note: As the IRS has yet to provide a special tax distribution code for QCDs, they will be reported the same as your normal distribution. It is extremely important that you report the distribution to your CPA as a QCD and provide proper documentation so that the distribution is reported properly on your income tax return.

In addition to the three strategies discussed above, there can be additional strategies available depending on individual circumstances, assets available for use, and the current (and ever-changing) tax landscape.

That is why is it is even more critical than it has been to be pro-active as you do your tax and charitable planning. Work with your team of advisers, including your financial planner, your tax adviser, and in some cases your estate planning adviser - your professional team - to come up with the best possible charitable giving plan for you. These days, it is about evaluating the importance of not only the potential donation amounts but also what property and/or assets provide the optimal financial benefit for your circumstances and long-term financial security. Not all strategies will apply to all donors. It takes evaluating each individuals' circumstances to come up with the best plan, and to make the charitable plan part of the overall retirement and financial plan is crucial. Make it part of your 2019 goal to get your charitable planning strategy in place - your financial plan and your heart will thank you for it.

About the author: Sandra D. Adams, CFP®, can be reached at 248-948-7900, Center for Financial Planning, Inc., 24800 Denso Drive, Ste. 300 Southfield, MI 48033. Securities offered through Raymond James Financial Services, Inc. Member FINRA/SIPC. Investment advisory services offered through Raymond James Financial Services Advisors, Inc. Center for Financial Planning, Inc. is not a registered broker/dealer and is independent of Raymond James Financial Services,

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