CHARITABLE PLANNING

Maximizing the Financial Impact of Charitable Giving

Charitable giving is a meaningful way to give back to the community and support causes close to the heart. Financially, there are various ways of giving that benefit both the donor and the charity, but each method has its strengths and limitations.

Qualified Charitable Distribution

A Qualified Charitable Distribution (QCD) is a tax-free donation up to $105,000 in 2024 from an Individual Retirement Account to a charitable organization.

To qualify for a QCD, the donor must be 70½ or older. QCDs may be issued from IRAs and Inherited IRAs. SEP and SIMPLE IRAs are also eligible, so long as contributions are no longer being made. A charity must be a 501(c)(3) organization eligible for tax-deductible contributions, and the gift must be made directly from the IRA. The owner cannot receive funds and then write a check.

QCDs can count toward satisfying Required Minimum Distributions, simultaneously lowering taxable income and accomplishing charitable goals. The donor does not need to itemize deductions on their taxes for this deduction to be recognized.

Charitable Lead Trusts

A Charitable Lead Trust (CLT) is a trust in which a donor makes an irrevocable gift of assets to the trust, and donations are invested providing yearly payouts to the charity of choice.

The payments from the trust to charity continue for a set amount of time. After that period expires, the balance is paid out to a noncharitable beneficiary. CLTs are a continuous way for the benefactor to make regular charitable contributions with minimum effort and provide a guaranteed income stream for the charitable beneficiary.

Because gifts to a CLT remove the asset from the donor's taxable estate, CLTs can reduce transfer taxes, such as gift and estate taxes. They may also provide the benefactor with one large tax deduction at the initial funding of the trust.

Charitable Remainder Trusts

A Charitable Remainder Trust (CRT) is a trust in which a donor makes an irrevocable gift of assets to the trust. The trust makes annual payments to a non-charitable

Charitable Remainder Trusts

beneficiary for a set period. At the end of the period, the remaining assets in the trust are given to the charity.

Setting up a CRT makes the trustor eligible for a partial tax deduction based on the value of the charity's share of the trust.

Charitable Remainder Trusts are also irrevocable, meaning they cannot be modified or terminated without the charitable beneficiary's permission. The trustor removes all rights of ownership of the assets and trust upon the creation of its irrevocable status.

Gifting Appreciative Stock

There are times when investors have certain investments that have appreciated greatly in value. The difference between the cost basis and current value is large, and subject to taxes when sold (capital gains taxes if held for at least a year).

Investors can feel trapped between not wanting to pay taxes by selling these positions, and not wanting to continue holding these positions and potentially become overallocated to these investments.

When investors donate securities to charity, they'll generally receive a tax deduction for the full fair market value. There are no capital gains taxes; thus, there are tax savins for the donor, and the charity receives a higher donation amount since taxes weren't taken out prior to the donation.

Donor Advised Funds

A donor-advised fund (DAF) is an investment account that makes grants to charity over time. A sponsoring institution custodies the assets, the donor manages the investments, and the sponsoring institution makes grants at the donor's recommendation. A DAF is administered by a third party and can accept cash, securities, or other assets. Donors surrender ownership of their contributions, but retain advisory privileges over how they are invested and distributed.

Donor-advised funds have several benefits, including tax deductions on contributions, no capital gains taxes, removing assets from the donor's estate, allowing for giving to continue over multiple generations, and anonymity. DAFs can also serve as a legacy charitable fund for families as you can name a successor to manage the DAF after the death of the grantor.

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