THE Wealth REPORT

You don't have to be super wealthy to become philanthropic. And when you give, it doesn't just benefit the recipient — you and your heirs can also benefit through possible tax and estate reductions.

CHARITABLE GIVING STRATEGIES ALMOST EVERYONE CAN USE

Overview

"No one has ever become poor by giving." -Anne Frank

Charitable giving is a tradition as old as time. Civilizations throughout history have encouraged it, starting with the ancient Greeks who believed philanthropy was fundamental to democracy. Across centuries individuals and families have given of their time, money and other resources to further the causes they care about and help those who need it most.

There's no shortage of people and groups seeking assistance. In the U.S. alone, more than 1.5 million charitable organizations existed in 2022.[1] Individuals, foundations and corporations gave an estimated $499.33 billion to those organizations that year.[2]

While it would be nice to say this giving was 100% altruistic in nature, the tax-deductibility of charitable donations is a major driver for many donors. And these donations don't necessarily have to be in cash. Let's take a look at some of the other vehicles for charitable giving available to investors, no matter what their net worth.

Stocks

If you own highly appreciated stock, you can donate it to a nonprofit organization. This typically results in a larger donation than if you had paid cash, since you won't owe capital gains resulting from selling the stock. Plus, you can deduct the value of the donation from your taxes in the year in which the donation was made.[3]

Retirement Assets

If you'd like to gift assets from a 401(k) or other employer-sponsored retirement plan, you will first need to take a distribution from the account and pay taxes on the income. Then you can donate the cash to a charity. One drawback of this approach is that you can't deduct the gift unless you're able to itemize your deductions. You'll also need to make sure you're able to take distributions from the plan if you're still employed or over the age of 59 1/2 to avoid early withdrawal penalties.

If you've reached the age where you must take annual required minimum distributions (RMDs) from your traditional IRA, you can donate up to $100,000 of your RMDs directly to a charity of your choosing. (Married couples can donate a total of $200,000 annually.) These qualified charitable distributions (QCDs) reduce your taxable income for the year in which you make the donation.[4]

You could also name the charity as a beneficiary of your account upon your death. The charity will then receive the full amount of the IRA since nonprofit organizations do not pay income taxes. While your estate must report the value of the donated assets, it will receive a tax deduction to help offset estate taxes.[5]

Insurance

Life insurance is a great vehicle for charitable giving. You may transfer the ownership of a life insurance policy (with you as the insured) to a charity during your lifetime, and the benefit will be distributed to the charity upon your death. If the policy has a cash value, you may be able to deduct the value of the donation from your taxes.

Another option is to purchase a new policy to leverage the premium for a higher charitable gift. For example, let's say you are able to purchase a single-premium life insurance policy for $100,000 with a death benefit of $400,000 to the charity of your choosing. Not only does the charity get a larger gift, but that's $100,000 your estate won't have to count toward the estate tax limit.[6]

If you want to retain ownership of the life insurance policy but still want the charity to receive all or a portion of the benefits, no problem. Simply add them as a beneficiary to your policy, and they will receive the proceeds upon your death.

Donor-Advised Fund

With a donor-advised fund (DAF), you can make an irrevocable contribution of cash, securities or other assets (such as real estate) and receive a tax deduction for the year in which the contribution is made. But you don't have to immediately donate assets in the fund; instead, you can let them accumulate, even over multiple years. This gives you time to let the assets grow and be more strategic about where to donate them.[7]

Charitable Remainder Trust

A charitable remainder trust (CRT) can be used to make a large donation to a charity, which will then produce income to help supplement your retirement nest egg. You start by donating an asset to a charitable trust, and you can claim part of the asset's value as a tax deduction in the year you made the contribution. The trust sells the asset, and the proceeds are reinvested in an income-producing portfolio. This portfolio pays you either an annual fixed percentage of the value of the assets in the trust or a fixed dollar amount. Upon your death, the designated charitable organization will receive the remainder of the assets in the trust. A CRT is an option for investors who wish to create a philanthropic legacy but still receive income from the gifted asset(s) during their lifetime.[8]

Charitable Lead Trust

Like a CRT, a charitable lead trust (CLT) splits out the income stream and remainder interest of the donated asset. But in this case, the income stream is paid out to the charity instead of the donor. After a designated period, the remaining proceeds are distributed to non-charity beneficiaries. A CLT is sometimes used as a method of reducing the value of an estate for tax purposes.[9]

Final Thoughts

While all of these strategies can serve dual purposes and benefit both the giver and the recipient, not all of them are right for every situation. And if they aren't set up properly, deploying these charitable giving strategies could end up costing you more in taxes.

A qualified financial professional can help you explore your options and deploy strategies that align with your goals. They can also work closely with your other professionals — such as an estate planning attorney, CPA, business advisors, etc. — to make sure everything is set up correctly for your beneficiaries and ensure your legacy continues long after you're gone.

[1] National Philanthropic Trust. “Charitable Giving Statistics.” https://www.nptrust.org/philanthropic-resources/charitable-giving-statistics/. Accessed Nov. 7, 2023.
[2] Lilly Family School of Philanthropy. June 20, 2023. “Giving USA: Total U.S. charitable giving declined in 2022 to $499.33 billion following two years of record generosity.” https://philanthropy.iupui.edu/news-events/news-item/giving-usa:-total-u.s.-charitable-giving-declined-in-2022-to-$499.33-billion-following-two-years-of-record-generosity.html?id=422. Accessed Nov. 7, 2023.
[3] Brian Beers. Investopedia. June 25, 2022. “Can I Donate Stock to Charity?” https://www.investopedia.com/ask/answers/07/donatestock.asp. Accessed Nov. 7, 2023.
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[5] Alicia Tuovila. Investopedia. Feb. 28, 2023. “Gifting Your Retirement Assets to Charity.” https://www.investopedia.com/articles/retirement/05/giftingtocharity.asp. Accessed Nov. 7, 2023.
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[7] IRS. Jan. 6, 2023. “Donor-advised Funds.” https://www.irs.gov/charities-non-profits/charitable-organizations/donor-advised-funds. Accessed Nov. 7, 2023.
[8] IRS. July 28, 2023. “Charitable Remainder Trusts.” https://www.irs.gov/charities-non-profits/charitable-remainder-trusts. Accessed Nov. 7, 2023.
[9] Julia Kagan. Investopedia. Dec. 9, 2022. “Charitable Lead Trust: Meaning, Pros and Cons, FAQs.” https://www.investopedia.com/terms/c/charitableleadtrust.asp. Accessed Nov. 7, 2023.

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