Charitable Giving Strategies

Emily F. Johnson, CFP®
The Allman Johnson Group
Baird Private Wealth Management
ejohnson@rwbaird.com
919-789-5988

Gifting Strategies: Wills & Beneficiary Designations

Estate Planning Documents

- Language in your will
  - Percentage
  - Dollar Amount
  - Specific asset

- Note with your will
  - Not binding, but expresses your wishes to your heirs that may not be in your will

Beneficiary Designations

Traditional Retirement accounts make ideal gifts to charity as part of an estate plan

- IRA included in gross estate, but value is deductible as a charitable gift
- Charity takes withdrawals from IRA tax free (individuals do not)

When other options exist, Roth IRAs are not ideal gifts to charities.

- Value is already tax-free, so charity gets no extra benefit
- Better off leaving other taxable assets before a Roth

Brokerage Accounts – Transfer on Death Designation

- Assets in brokerage accounts receive a step up in cost basis, so they are better left for heirs/children, who pay taxes.

Tax Efficient Wealth Transfer at Death

Example: Individual dies with:

- $50,000 in an IRA
- $50,000 in a brokerage account with $10,000 Cost Basis
- Estate Plan calls to gift 50% to Charity and 50% to an heir

Tax Efficient Transfer

- $50,000 IRA to Charity
  - Charity will not pay any tax. Heir would have to pay income tax on any distribution
- $50,000 Brokerage Account to Heir
  - Brokerage account will receive a step- up cost basis, so the heir will not have to pay capital gains tax on $40,000.

Designate Charity as Life Insurance Beneficiary

Pro:

- Lowers the value of estate if donating to charity

Con;

- Not the most tax efficient assets to leave to a charity – life insurance is typically income tax free to the beneficiary.

Gifting Strategies *During* Your Lifetime

Charitable Giving Strategies *During* Your Lifetime

1. Qualified Charitable Distributions (QCDs) from your IRA
2. Gifting appreciated stock vs. cash
3. Bunching Charitable Contributions
   – By establishing a Donor Advised Fund
4. Charitable Remainder Trust

Qualified Charitable Distributions

- Allow IRA owners to make direct gifts from their IRA to charities
  - QCDs count towards your Required Minimum Distribution (RMD)
  - Withdrawal is not taxable to the IRA owner
  - No deduction for the gift

- QCDs were first available in 2006 and made permanent in 2015

Qualified Charitable Distribution Rules

- Must be at least age 70 ½ at the time of the gift
- Limited to $100,000 per IRA owner per year
- Must go directly to the charity from the IRA
- Must be a public charity – no foundations or donor advised funds
- Can be made from inherited IRAs, but owner must still be 70 ½

Qualified Charitable Distributions

BAIRD

- QCDs create a tax benefit for the gift that otherwise wouldn't be available
  - Allows RMD to be tax-free
  - Give away retirement assets while keeping taxable assets
  - Allows a donor to give more

- QCDs also keep Adjusted Gross Income (AGI) lower
  - Makes it easier to deduct medical expenses
  - Potentially reduces taxable portion of social security
  - Can help avoid higher Medicare premiums under IRMAA

Gifting Appreciated Shares

- Sally owns 1,000 shares of long term XYZ stock, worth $11/share
- Cost Basis of $1/share
- Long Term Capital Gains tax rate = 15%   Ordinary tax rate = 35%

	Sell Shares,Then Gift	Gift Shares Directly
Value Given Up	$11,000	$11,000
Tax Due on Sale	$1,500	0
Value of Gift	$9,500	$11,000
Tax Deduction Savings	$3,325	$3,850
Total Tax Savings	$1,825	$3,850

Bunching Deductions

BAIRD

- All taxpayers reduce their income subject to taxes through the use of deductions:

  - Standard Deduction
  - Itemized Deductions
    - Medical Expenses
    - State Income and Sales Tax, Property Taxes ($10,000 cap)
    - Mortgage Interest
    - Charitable Contributions

- Establish a Donor Advised Fund to facilitate bunching deductions, while maintaining annual giving from the DAF to your favorite charities

Bunching Deduction Strategy

Pay Annually	2021	2022	2023	2024	
Income and Property Taxes	$10,000	$10,000	$10,000	$10,000	
Mortgage Interest	$7,500	$7,500	$7,500	$7,500	
Charitable Contributions	$7,000	$7,000	$7,000	$7,000	
Total Itemized	$24,500	$24,500	$24,500	$24,500	
Standard Deduction	$25,100	$25,900	$27,700	$29,200	
Actual Deduction	$25,100	$25,900	$27,700	$29,200	**$107,900**

Bunching	**2021**	**2022**	**2023**	**2024**	
Income and Property Taxes	$10,000	$10,000	$10,000	$10,000	
Mortgage Interest	$7,500	$7,500	$7,500	$7,500	
Charitable Contributions	0	$14,000	0	$14,000	
Total Itemized	$17,500	$31,500	$17,500	$31,500	
Standard Deduction	$25,100	$25,900	$27,700	$29,200	
Actual Deduction	$25,100	$31,500	$27,700	$31,500	**$115,800**

Donor Advised Fund

- Miniature vision of a Charitable Foundation
- Set up through Financial Advisors or with Community Foundations
- Minimum initial donation of $5,000 (for ones we work with)

Benefits:

- Receive a tax deduction in the year the donation is made to the DAF
- Owner (you) maintain control, with some investment limitations, of how the money is invested.
- Owner authorizes donations from the Donor Advised Fund
- Use this money to gift over future years

Donor Advised Fund

Ideal for Donors who:

- Can afford to donate $5,000 or more
  - Initial funding varies by fund, but $5,000 is common
- Has a large spike in income that isn't likely to occur again soon
- Wants the tax deduction now but doesn’t know where to give the money
- Doesn’t have a need for income from the assets that you donate to the DAF
- Ideal Donation to a DAF is highly appreciated stock

Charitable Remainder Trust

- Tax-exempt irrevocable trust that distributes a defined income stream to a non-charitable party
- Ultimately pass the assets to a charity upon termination

Establishing a CRT:

- Grantor donates assets into the Charitable Remainder Trust
- Grantor receives a charitable income tax deduction the year the trust is created
- Assets can be sold within the CRT without being subject to tax
- Grantor receives taxable annual distributions from the CRT.
- Upon the death of the grantor (and likely beneficiary), the designated charity receives the remaining amount of money in the CRT.

Charitable Remainder Trust

GRANTOR

Grantor donates appreciated assets to the CRT

Grantor (if listed as a beneficiary) receives defined income stream from CRT

CHARITABLE REMAINDER TRUST

While held by trustees, appreciated assets can be sold without capital gains taxes and the proceeds are reinvested

CHARITY

Upon termination of the trust, assets are passed to charity

BENEFICIARIES

Beneficiaries receive defined income stream from CRT

Charitable Remainder Trust

When a CRT Might Be Appropriate:

- Most beneficial for investors holding large concentrations of individual stocks who want liquidity from the position.
  - Normal liquidity would cause a large capital gain.

- Investors seeking tax liability relief could benefit from creating a CRT

- CRTs are a great option for those interested in philanthropic giving.

Questions?

- Robert W. Baird & Co. Incorporated does not provide tax or legal advice. Please consult your legal or tax professional for specific information.

- Certified Financial Planner Board of Standards Inc. owns the certification marks CFP®, CERTIFIED FINANCIAL PLANNER™ and federally registered CFP (with flame design) in the U.S., which it awards to individuals who successfully complete CFP Board's initial and ongoing certification requirements.