Charitable Giving – Part 1

Donors are able to support charitable organizations throughout their life and upon death using a variety of techniques. In exchange for the donation, the donor will receive an income tax and/or an estate tax savings. Selecting the appropriate giving technique depends on the donor's wishes and goals. In Part I of this two part series, we will discuss using cash or appreciated securities, a Donor Advised Fund, IRA distributions, and a bequest through your will.

Cash or Appreciated Securities Donation

A donor may give cash or appreciated securities to a qualified charitable organization at any time and receive an income tax deduction. The amount of deduction allowed is limited to a certain percentage of the donor's adjusted gross income, the limitation varies depending on whether cash or securities are given and also whether the qualified organization is a private foundation or public charity. However, if the full deduction is not able to be used in the current year due to the limitation, it can be carried forward for five years. Please consult with your tax advisor for the current limitations.

For any substantial donation, there is an added income tax benefit of donating appreciated securities. If you have held the security for greater than one year, you receive a charitable deduction in the amount of the fair market value of the security on the date of the gift and you avoid paying capital gains tax on the appreciation. The charitable organization sells the security, receives the fair market value in cash, and because it is a charitable organization it does not pay income tax on the appreciation. If it was a security you still wish to hold in your portfolio, you can use cash to purchase the security again and establish a new tax basis at the current higher value.

Note that for any donation greater than $250, the IRS requires you to keep on file a receipt from the organization that states the date of the donation, amount donated, description of the donation, and if any goods or services were received in return.

Donor Advised Fund

Donors who wish to take a current year charitable contribution income tax deduction, but have not yet determined which charity they would like the funds to go to are able to set up a donor advised fund. These funds are administered by various public charities and the donor is able to contribute to the fund as often as they would like. The donor receives an income tax deduction for the cash or fair market value of long-term appreciated securities that are put into the fund in the current year and the assets grow tax free.

It is important to note that once the assets are placed in the Fund, the donor is able to recommend a donation of the funds to a charitable organization, but the administrator has legal control and is able to decline the recommendation. While not an all-inclusive list, some of the more common reasons for declination are that the charity is not an IRS qualified public charity, the charity is not eligible to receive donations from a donor advised fund, or the donation results in a personal benefit. With regard to personal benefit, donors and their family members cannot receive anything in return from the organization that is considered greater than an incidental benefit.

It is also important to note that a donor advised fund may not be used to fulfill legally binding pledges.

IRA or Qualified Plan Distributions

Distributions from a Traditional IRA or Qualified Retirement Plan are taxable to the holder throughout their lifetime. When the holder dies, distributions are taxable to the beneficiary. However, during an individual's lifetime, they are able to make a qualified charitable contribution ("QCD") from their IRA which is a direct transfer from the IRA to a qualified charity. An individual may give up to $100,000 per year through a QCD and the distribution will also count towards the individual's required minimum distribution for the year. This allows the individual to make a charitable contribution and receive a full income tax deduction for it as the amount of the QCD is not included in the retiree's taxable income.

An individual is also able to designate a charitable organization as a beneficiary of their IRA or Qualified Retirement Plan, in which case, upon death, the organization will receive the designated amount tax free. In addition, the estate will receive a charitable deduction for the amount of the donation which will in turn reduce the donor's taxable estate.

Bequest by Will

An individual may request a portion of their estate to be transferred to a qualified organization upon death. The estate will receive a deduction for the amount of the charitable contribution.

Please consult your wealth advisor for additional information on any of the above mentioned techniques. In part two of this series we will discuss charitable remainder trusts, charitable lead trusts, and the use of life insurance.