HoyleCohen
WEALTH MANAGEMENT

Charitable Planning

How to Enhance Your Impact

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In our experience, charitable giving can be an important part of a client's financial plan. While often viewed as an activity reserved for the ultra-wealthy, we have helped clients across the wealth spectrum support causes that are important to them using a variety of strategies that can offer benefits to the donors and/or amplify the power of their gifts to charity.

Why give?

There are several reasons why clients consider donating to charities. First and foremost, it allows them to give back to society and support the causes they care about. It can also provide a sense of purpose and fulfillment, and it may even provide an opportunity to leave a legacy. Lastly, charitable giving can provide tax benefits via deductions for donations to public charities, including donor-advised funds, which are generally limited to 50% of adjusted gross income (AGI) but adjust higher for cash donations (60%) and lower for appreciated non-cash assets held more than one year (30%). Contribution amounts in excess of these limits may be carried over up to five subsequent tax years.

Regardless of your reasoning, **there are a variety of ways to make the most of your charitable dollars**. Thoughtful planning around contributions can be an effective tool to help clients maximize their impact and lower their overall tax burden. So, before you write a check to your favorite charity, consider the ideas below and let us know if you have any questions on how you might be able to enhance your charitable planning.

Donate appreciated securities

Many of our clients have worked for companies whose stock prices have increased dramatically over the years. As opposed to donating cash, these clients often gift shares of company stock instead. The charity receives the same amount regardless, and the donor avoids having to realize the capital gains that would have resulted from selling the shares. It is a win-win strategy for both the donor and donee, and it can lead to significant tax savings. In CA, it could be more than 30%!

Donating Appreciated Securities Example

A CA resident in the highest tax bracket purchased 100 shares of XYZ Co. for $3,000 in 2020 that are now worth $10,000.

	Charity receives	Capital gains tax owed
Give $10,000 shares of XYZ	**$10,000**	**$0**
Sell 100 shares of XYZ and donate proceeds	**$10,000**	**$2,261** ($10K - $3K x 32.3%)

Bunch donations into a single year

Most Americans claim the standard deduction ($13,850 for single filers and $27,700 for married filers in 2023) as opposed to itemizing deductions when filing their taxes. This makes charitable donations potentially less impactful from a tax perspective as you cannot claim a charitable deduction unless you itemize. Hence, “bunching”, which means making larger charitable donations in certain years, could help retain some of the tax advantages.

It generally does not make sense to itemize deductions unless you are able to itemize more than the standard deduction.

For example, if a client usually donates $10,000 per year, they may consider donating $20,000 every two years to take advantage of the itemizing of deductions.

	Option 1 Take standard deduction		Option 2 Bunch saving (tax-saving)	
Tax year	**2022**	**2023**	**2022**	**2023**
Charitable deductions	$10,000	$10,000	$20,000	$0
Other deductions	$13,000	$13,000	$13,000	$13,000
Total	**$23,000**	**$23,000**	**$33,000**	**$13,000**
Standard or itemized deductions	**Standard deduction**	**Standard deduction**	**Itemized deduction**	**Standard deduction**
Deductions Taken	$25,900	$27,700	$33,000	$27,700
Total two year deduction	**$53,600**		**$60,700**	

That's $7,100 of additional tax deductions!

Establish a donor-advised fund (DAF)

A DAF allows clients to make a charitable contribution and receive an immediate tax deduction, while investing the funds for eventual future donation(s). The charities need not be defined at the time the DAF is created/funded and can be changed over time. The funds can be invested in various securities, and if those investments perform well, the asset base will grow and allow for larger gifts to charities in the future. **Flexibility on the timing of inflows and outflows is a key advantage of DAFs.** On the contribution side, you can add funds to a DAF at any time and as often as you wish, and on the distribution side, you can make grants immediately or years out into the future to charities in various amounts (one-time or recurring). This is why a DAF pairs well with the “bunching” strategy described above (i.e. “bunch” contributions to receive the tax advantage when you need it and decide who ultimately benefits later.)

Another key benefit of a DAF is the possibility for generational/legacy planning. We have worked with many families who use their DAFs as a way to encourage philanthropy for younger generations and pass along core values. For example, some families gather annually and each family member is tasked with presenting a charity the DAF should support that year. Jeremy's family gets together each Thanksgiving to highlight causes that are important to each of them. He always finds it surprising and uplifting to hear the ideas from his elementary-aged daughters.

Satisfy an IRA RMD through a non-taxable qualified charitable distribution (QCD)

Individuals age 70½ and older can direct QCDs of up to $100,000 per year from their traditional IRAs to operating charities (excluding donor-advised funds) and reduce their taxable income. Starting in 2023, donors can also direct a one-time $50,000 QCD to a charitable remainder trust or charitable gift annuity as part of the recently passed SECURE Act 2.0 legislation.

A QCD can satisfy all or part of a donor's annual RMD, is not taxable income for the donor, and does not qualify for a charitable deduction. Note that married couples who submit joint tax returns each qualify for an annual QCD of up to $100,000, for a potential total of $200,000, and the SECURE Act 2.0 mandates annual inflation-based adjustments of the QCD limit starting in 2024.

For example, a taxpayer in the highest federal and state income tax brackets in California (with a combined marginal rate of 50%) utilizes a QCD to directly transfer $10,000 from their traditional IRA to the qualified charity. This QCD amount is excluded from their taxable income, reducing their taxable income by $10,000, resulting in tax savings of $5,000.

	Charity receives	Taxes owed
Give $10,000 directly via QCD	$10,000	$0
Distribute $10,000 from IRA & donate proceeds	$10,000	$5,000 ($10K x 50%)

*Assumes taxpayer does not itemize deductions in this tax year.

Leave a legacy by naming a charity as a beneficiary of IRA assets

Depending on a client's situation, it could make sense to name a charitable beneficiary for some or all of a retirement account. **Importantly, IRA assets are typically taxed as ordinary income for individual beneficiaries, however, if these assets are left to a charity, the entire amount is available for charitable purposes.** If clients have satisfied wealth transfer goals with non-IRA assets, this is often a thoughtful strategy to avoid taxes on retirement funds.

Offset the tax liability on converting a retirement account to a Roth IRA

The primary benefits of a Roth IRA are potential tax-free growth, tax-free withdrawals (if holding period and age requirements are met), no annual required minimum distribution (RMD), and elimination of tax liability for beneficiaries (if account assets are passed to heirs). Donors with tax deferred retirement accounts, such as traditional IRAs, may be able to use an itemized charitable deduction to help offset the tax liability on the amount converted to a Roth IRA.

Create a charitable trust

A Charitable Remainder Trust (CRT), could be named as the beneficiary of an IRA, providing an upfront charitable deduction and allowing the beneficiary to stretch inherited IRA distributions over their lifetime.

(After the SECURE act, most non spouse beneficiaries only have 10 years to distribute the entire IRA after inheriting it)

This can be a more complex strategy, but it allows clients to make a significant charitable contribution while also potentially receiving tax benefits and retaining some control over the distribution of funds to charities and/or personal beneficiaries (including the donor and/or donor family members). For example, a Charitable Remainder Trust (CRT), could be named as the beneficiary of an IRA, providing an upfront charitable deduction and allowing the beneficiary to stretch inherited IRA distributions over their lifetime. However, this is where things get much more complex, and we would advise consulting your Advisor, CPA, and your attorney as well.

Ultimately, the best strategy for you will depend on your individual financial situation and charitable goals. Reach out to your advisor if you'd like to discuss any of the strategies mentioned or to think through other aspects of your financial plan.