Counterweight
PRIVATE WEALTH

Charitable Giving

A Simple Guide To Making the Most of Your Donations

How to Make the Most of Your Giving

Developing a legacy of charitable giving is often an important part of financial planning. After all, few things in life can bring more fulfillment and purpose than giving our time and wealth to causes that align with our values, beliefs, and passions.

Unfortunately, many well-intentioned individuals do not structure their charitable giving in ways that simultaneously maximize their own financial and tax situation. A small amount of planning can make a huge difference.

First, it is important to understand there are many strategies available to financially support charitable causes. We have listed the most common, categorized into "simple" and "complex."

Simple

- Direct Cash Donations
- Donating Appreciated Stock
- Donor Advised Funds (DAF)
- Qualified Charitable Distributions (QCD)

Complex

- Charitable Trusts
- Charitable Gift Annuities
- Charitable Life Estates
- Private Foundations and Family Foundations

Highlights

- Charitable giving should be decided based on your desire to support a cause, not only whether there is a tax benefit. A large majority of individuals do not receive any tax benefit when they give to charity.
- While direct cash contributions are the easiest way to make charitable donations, they are rarely the most beneficial for tax purposes.
- Gifts of appreciated stock create a greater tax benefit than cash donations for most taxpayers.
- A Donor Advised Fund (DAF) is a simple, flexible, and fantastic strategy to enhance your charitable giving.
- Qualified Charitable Distribution (QCD) is a tremendous strategy because a taxpayer benefits regardless of whether they itemize or take a standard deduction.

While complex strategies have their place, we will focus on simple strategies you and your family can implement immediately. First however, it is important to understand the basics of how charitable gifts are treated for tax purposes.

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Tax Benefits of Charitable Gifts

The Federal tax code is designed so individuals pay tax on income they receive (wages, retirement account distributions, passive income, capital gains, etc.). Taxpayers are allowed to deduct certain items from their "taxable" income every year to reduce the amount of tax owed. These are called itemized deductions and include things like medical expenses, mortgage interest, state income taxes, property taxes, and donations to charitable organizations.

Keeping track of your itemized deductions can be cumbersome and complicates your tax preparation, so in 1944 congress introduced the concept of a standard deduction, which can be used by any taxpayer if they choose to avoid the hassle of itemizing their allowable deductions.

While initially small, the standard deduction has grown over time and in recent years has grown substantially.

Currently, the standard deductions are as follows:

2024

Married Filing Jointly	$29,200
Single	$13,850
Head of Household	$20,800

2025 (Projected)

Married Filing Jointly	$30,000
Single	$15,000
Head of Household	$22,500

As you can see, these amounts are significant. Therefore, unless someone has considerable itemized deductions, most taxpayers simply elect the standard deduction and move on. In fact, according to recent estimates, roughly 90% of taxpayers claim the standard deduction.

Consequently, many individuals who give to charity do not receive any type of tax benefit whatsoever.

However, by implementing a few simple concepts, any taxpayer can create a tax advantage for their gifts even if they do not itemize. Here are four simple and common charitable giving strategies and the benefits of each.

Simple Charitable Giving Strategies

01 Direct Cash Donations

Most people make cash donations (i.e., write a check, credit/debit card, etc.) directly to a charitable organization. While this is often the easiest way to support a cause, it is rarely the most beneficial for tax purposes. As previously discussed, a large majority of donors do not itemize their deductions and therefore receive no tax benefit for doing so. This why charitable giving should be decided by your desire to support an important cause, not whether you receive a tax benefit. Small infrequent cash donations are fine, but if you are making more substantial donations there are likely better options to consider.

02 Donating Appreciated Stock

One of the simplest ways to enhance the tax benefit of your charitable gift is to donate shares of appreciated stocks, bonds, or other investments directly to the organization. By doing so, you avoid paying tax on the capital gain and you are still eligible for a charitable income tax deduction on the fair market value (FMV) of the gift (subject to IRS limits).

For example, Jim and Pam want to make a $5,000 donation to a local charity. Instead of writing a check, they could look through their portfolio to identify a highly appreciated investment. Suppose years ago, they purchased $500 worth of XYZ stock which is now worth $5,000. They can donate those shares to the charity and receive a $5,000 charitable income tax deduction, while also enhancing their tax benefit by avoiding tax on the capital gain.

*Pro Tip: If desired, you can simply repurchase the stock afterwards to adjust your cost basis to the new fair market value.

03 Give to a Donor-Advised Fund (DAF)

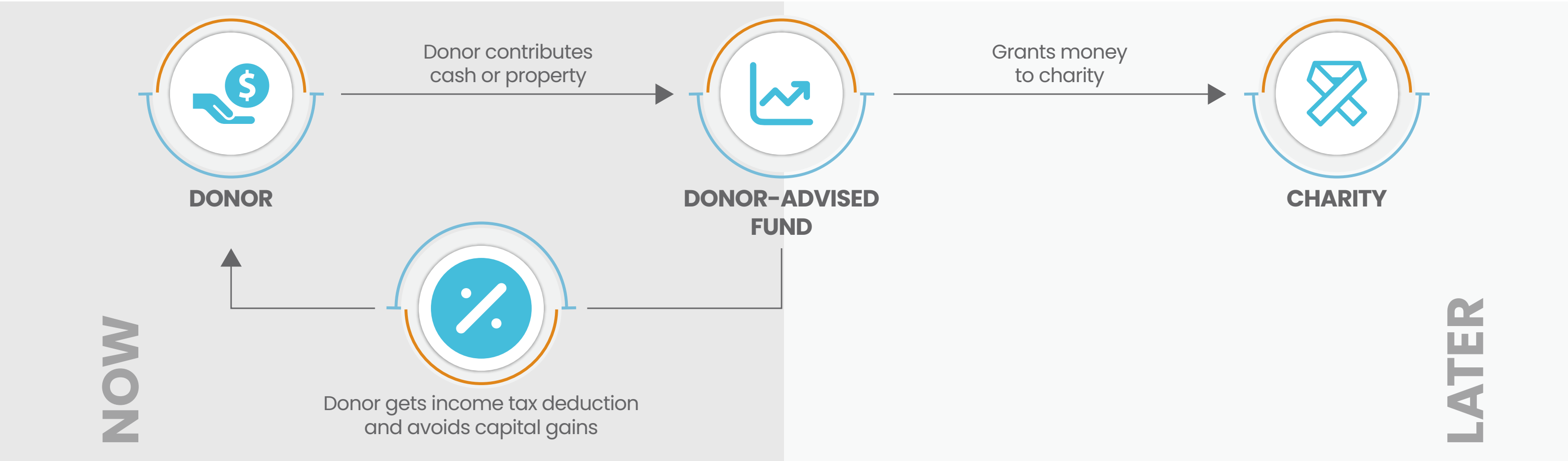
Donor-Advised Fund(s) are an easy way to create your own personal charitable giving fund. They are low cost, extremely flexible, and allow greater control over your giving. When funding a DAF, you receive an immediate charitable tax deduction in the year of donation, yet you are not required to grant those funds to your preferred charity until a later time of your choosing. This allows you to generate a charitable deduction in the tax years most beneficial to you without feeling pressured to identify which charitable causes to support in the same year.

Meanwhile, your DAF funds can be invested to grow over time and enhance the future impact of your gift.

Strategies to Enhance Your DAF Gift:

1. Donating appreciated assets, thereby avoiding paying tax on a capital gain.
2. Making sizeable contributions in higher income years when it may be more beneficial to do so.
3. Bunching multiple years' worth of charitable gifts into one DAF contribution (to claim the itemized deduction), then take the standard deduction in other years.

Donor-Advised Funds



Key Features

- Receive an immediate tax deduction for the FMV of a contribution to a DAF.
- A DAF can receive donations of cash, appreciated stock, privately held business interests, and other assets.
- Funds in the DAF can be invested and grow over time.
- You have complete control over when to make grants from the DAF to a charity of your choice.
- Gifts from a DAF can be made anonymously to a charitable organization.
- When making gifts to multiple charities, you only need to keep track of one donation receipt for tax purposes instead of many.
- A DAF allows you to bunch multiple years of charitable gifts together for tax purposes.
- It creates a mechanism for future generations to be involved in a legacy of philanthropy.

04 Qualified Charitable Distribution (QCD)

A Qualified Charitable Distribution is a payment made directly from your IRA to a charity. It was created to allow individuals who have reached Required Minimum Distribution (RMD) age , the option to donate all or a portion of their mandatory distribution. Instead of receiving the RMD (and thus paying income tax on the entire distribution), the IRS allows you to make a direct contribution from your IRA to a charity. In doing so, no taxable income is generated to you.

A Qualified Charitable Distribution is a tremendous strategy because any taxpayer benefits regardless of whether they itemize or take a standard deduction.

Instead of being a "deductible" contribution to charity, your QCD contribution is never considered income in the first place.

Highlights

- Individuals age 70½ or older are eligible to make a QCD.
- The payment must be made directly from your IRA to an eligible 501(c)(3) organization.
- QCD's cannot be made to Donor Advised Funds.
- A QCD cannot exceed $105,000 for the 2024 tax year.
- A QCD can satisfy your Required Minimum Distribution (RMD), up to annual QCD limits, once you reach RMD age and beyond.
- Types of accounts eligible for QCD's are IRA's, SEP IRA's, SIMPLE IRA's, and Inherited IRA's.
- 401(k)'s are not eligible for QCD's.

Whether you and your family give from a position of wealth, or of modest means, your charitable and philanthropic goals can be accomplished in tax effective ways. As you evaluate which charitable causes to support, consider implementing these concepts to help you maximize your gifts. It simply takes a little forethought and planning.

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