

CASH ALTERNATIVES FOR CHARITABLE GIVING

by Dominic Lucente

Thinking about donating? Think of these choices.

The new year has begun, and you may be thinking of giving. In fact, you may want to explore the different ways in which you can donate to a charity or non-profit organization, apart from just making a cash gift. Consider some of the alternatives.

Keep in mind this article is for informational purposes only. It's not a replacement for real-life advice. Make sure to consult your tax and legal professionals before modifying your gift-giving strategy.

Donor-advised funds. DAFs are essentially charitable savings accounts. Some are created and run by 501(c)(3) non-profits. Others are offered by brokerages and banks.^{1,2}

You can direct assets into a DAF for future charitable gifts. The bank, brokerage, or non-profit takes legal control of these assets, and may offer you investment choices for the assets and a selection of charities to which you may donate some or all of the assets in a given year. As a donor, you are eligible for a tax deduction in the year of the gift(s). If you like the general idea of "giving to charity" rather than to a specific charity, a DAF may appeal to you.^{1,2}

DAFs are sold only by prospectus. Please consider the charges, risks, expenses, and investment objectives carefully before investing. A prospectus containing this and other information about the investment company can be obtained from your financial professional. Read it carefully before you invest or send money. DAFs are subject to fluctuation in value and market risk. Shares, when redeemed, may be worth more or less than their original cost.

Qualified charitable distributions (QCDs). Are you age 70 or older? Do you have a traditional Individual Retirement Arrangement (IRA)? While annual required minimum distributions (RMDs) from an IRA will bring you income, those RMDs could also mean extra income tax.

If you are looking for ways to potentially manage your tax bill, one choice is to donate your RMD to charity via a QCD. With the help of a financial professional, you arrange a direct payment of some or all of your RMD to charity (there is a \$100,000 cap). All of the donated amount may be excluded from your gross income for the year of the donation. You can make a QCD starting in the year you turn 70½, though you do not have to take your first RMD until age 72.³

Generally, distributions from traditional IRAs must begin once you reach age 72. The money distributed to you is taxed as ordinary income. When such distributions are taken before age 59½, they may be subject to a 10% federal income tax penalty.

Donations of highly appreciated stocks. Do you itemize your deductions, rather than simply taking the standard deduction each year? Many non-profits and charities may accept gifts of securities.

There are potential advantages for both the donor and charity here, compared with a cash gift. For example, say you own stock and you are considering selling the share and giving the cash from the sale to your favorite charity. You can do that, but if you sell the shares, you might face a capital gain. If you donate the stock to the charity, the charity will take possession of the stock and as the donor, you may be able to deduct the gift.⁴

Gift bunching. Taxpayers have the opportunity to "bunch" (i.e., time) charitable gifts if they want to itemize deductions in a certain year instead of taking the standard federal tax deduction.⁵

You can still claim the charitable giving deduction rather than the standard deduction, but only if you itemize. If you do itemize, then your charitable deduction for cash gifts can potentially be as large as 60% of your adjusted gross income. Any amount exceeding that threshold can be carried forward for up to five years.⁵

As you consider all this, please remember that tax laws are subject to change without notice, and this article is not intended as tax or investment advice. Consult your financial professional before making any charitable gifting, tax, or investment decision. This information is designed to provide general information on the subjects covered.

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Citations

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