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summaries

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Creative Gifting Strategies

As we approach the season of giving, we thought it would be timely to review creative gifting strategies to both members of the family as well as charities.

Regarding philanthropic gifts, we suggest putting together a Charitable Gift Plan. This plan would include your budget for the amount you want to give, the causes you want to support and organizations that match those causes. It is also important to get adequate records of any gifts as the IRS may require supporting documentation if audited. For example, any gift with a value in excess of $250 requires a letter from the charity specifying the amount of the gift and it must state that you did not receive any goods or services in return for the gift.

Donations to a qualified tax-exempt organization may only be claimed as a deduction if you itemize expenses on your tax return. If you claim the standard deduction, your charitable gift will not help reduce your federal tax burden. Also, with the changes in tax law that took effect in 2013, higher income taxpayers may not get the full benefit of their total itemized deductions.

Regardless of the deductibility of your contribution, there are effective strategies for charitable giving that are more tax efficient than merely writing a check. The most commonly utilized strategy is gifting appreciated securities which avoids the capital gains tax that would be due if you sold the securities. This form of giving is positive for both the individual making the gift and the charity that is receiving the gift.

Another strategy is to contribute cash or appreciated securities to a Donor Advised fund. Examples include the Community Foundation of Southeast Michigan, Fidelity Charitable Gift Fund and Schwab Charitable Gift Fund. When you make this type of donation, you receive the tax benefit in the year in which you made the gift, but you retain the right to make gifts from this "escrow-like" account far into the future. Some of the Donor Advised funds even allow the donee to set up automatic gifts to be made on a regular basis (even as often as weekly and as little as $10). These accounts will make donations in your name or you may remain anonymous if you are so inclined.

For individuals with IRAs, subject to Required Minimum Distributions (RMDs) and do not need the annual withdrawal to live on, there is a good chance that you may be able to directly transfer up to $100,000 of your annual RMD to a qualified charity. This is beneficial because your philanthropic wishes are met, but the $100,000 is not subject to federal income taxes. This option to directly donate your RMD has been in place since 2006, however it is a provision in the tax code that expires every year and requires annual renewal. The House Ways and Means members approved in May to make the RMD transfer to charity a permanent part of the tax code. The rule has not yet been approved by Congress.

Charitable giving can also be a good life lesson for the younger generation. I know grandparents who write a check to their grandchildren's favorite charity every year. The grandchildren are required to make a case for their chosen recipient and it encourages good citizenship and community involvement.

I have also worked with grandparents and aunts and uncles who have tired of the gift parade around the holidays and would like to make a more significant impact on their loved ones lives. Rather than buying a soon forgotten game or toy, you may want to consider opening a 529 College Saving Plan. Although this gift may not be immediately appreciated by the child, it most certainly will be in the future when you have helped pay for a college education. In the state of Michigan, up to $5,000 may be deducted on your state income taxes ($10,000 for a married couple) when you make a contribution to the state sponsored MESP 529 Plan. A 529 college savings plan is not reported as an asset on the Free Application for Federal Student Aid (FAFSA) if it is not owned by the student or parent. However, qualified distributions are treated as untaxed income to the beneficiary and will affect subsequent year's FAFSA. Thus, it is best to use these funds in the senior year if qualifying for aid is a factor.

As we enter the final months of 2014, if you are contemplating gifts to your favorite charity or family member, please keep the above strategies in mind. As always, all questions or comments are welcome.

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