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summaries

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CHARITABLE GIVING REVISITED

When the topic of charitable giving and philanthropy is discussed on social media and the national newswires, our attention is often directed to the likes of Warren Buffet, Bill and Melinda Gates, MacKenzie Scott (Jeff Bezos' ex-wife) and other billionaire-class philanthropists who have vowed to donate a majority of their estate to charity. What is rarely discussed is how generous individuals are that are not part of the ultra-high net worth club.

Often overlooked are the countless volunteer hours that are provided by the masses to improve the lives of others. Also underappreciated are the financial contributions made by the working class. These contributions can be made in a variety of ways and may have favorable tax implications if properly executed.

Three common strategies include the gifting of appreciated securities, the use of a donor-advised funds, and making qualified charitable contributions out of one's IRA.

Gifting Appreciated Securities

For individuals with appreciated securities, those securities can be gifted directly to a qualifying charitable organization. When the charity takes possession of the security, the security is sold and 100% of the proceeds are available for use. The donor does not have to recognize a capital gain on the transfer to the charity and the charity does not have to recognize the gain either. This strategy is particularly helpful when an individual has a highly concentrated position in a taxable account and/or a very low cost basis in a security that has been targeted for sale.

Donor-Advised Fund

A donor-advised fund is a charitable giving vehicle sponsored by a public charity. Examples include Fidelity Charitable, Schwab Charitable, Vanguard Charitable and many community foundations. When a donor makes a contribution to the fund, they qualify for an immediate tax deduction. However, the funds stay invested in the donor-advised portfolio until the donor makes recommendations on which charities he/she wants to gift to.

A key attribute of this strategy is that the timing of the gift into the fund is totally separate from the timing of when the funds are distributed out to other charities. To illustrate the point, an individual may wish to make a $10,000 gift in 2021 and may choose to invest the proceeds for five years. In years six thru ten, the donor may choose to make periodic gifts to various charities, exhausting the fund after ten years. In practice, there are no near-term time limits on when the funds need to be distributed.

If a donor finds himself/herself in a particularly high tax bracket in a single year, he/she may decide to aggressively fund the account that year to maximize

his charitable deduction. For example, if a donor typically donates $10,000 per year into the fund, he may donate $30,000 in year one, and may choose to skip the next two years. This may result in a very generous tax deduction in a year when his/her marginal tax rate is at the highest level. This is often referred to as "bunching".

We previously mentioned a strategy of gifting appreciated securities. While this may prove to be a valuable strategy outside of a donor-advised fund, gifting this low cost basis security into the donor-advised fund allows for the immediate tax deduction of the gift at the current fair market value and gives the donor the luxury of time to decide when to distribute the funds to charity. In effect, we are combining two strategies by gifting appreciated securities and employing a donor-advised fund.

Qualified Charitable Distribution

A Qualified Charitable Distribution (QCD) is a direct transfer from one's IRA to a qualified charity. The rules state that the individual must first be taking a Required Minimum Distribution (RMD) from their IRA. From this amount, a portion or all of the RMD is gifted to a qualified charity. The portion that is gifted to charity is not considered a taxable distribution. Donor-advised funds cannot receive Qualified Charitable Deductions.

For example, let's assume that a married couple was routinely gifting $12,000 per year to their church and other charities. Let's also assume that they are taking the standard deduction which is $25,100 in 2021. Finally, this couple is required to take out $40,000 per year in minimum distributions from their IRA. The decision to use the standard deduction implies that their charitable gifts can no longer be itemized. However, by allowing the IRA to make the charitable gifts, it reduces the taxable portion of the RMD from $40,000 to $28,000 and the charity remains whole. So, the couple gets the benefits of the standard deduction, enjoys an additional tax saving by gifting through the IRA, and can satisfy their annual charitable goals.

Clearly, there are other strategies that one can consider when managing charitable giving. It should be noted that Sigma will often work with our clients' tax advisors or estate planning attorneys to structure a program that is most effective to each client's circumstances.

We invite you to contact us at any time to discuss these strategies in greater detail.

Christopher J. Kress, CFA

Disclosure: The views in this publication are as of September 2021 and are for informational purposes only and do not represent any recommendation of any particular security or strategy and should not be considered investment advice. The publication is prepared for educational purposes and the information presented has been gathered from sources believed to be reliable.

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