Tax-Wise Charitable Giving

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With year-end appeals from charitable organizations just around the corner, I want to offer the following tips to help make your charitable giving more tax-efficient.

1

Give Appreciated Assets vs. Cash

Although there have been many attempts in the past to limit the tax deductibility of charitable gifts of appreciated assets to the donor's cost basis, the "Tax Cuts and Jobs Act of 2017" made no changes to the existing rules. This means that you can still contribute appreciated assets to a charity and deduct the fair market value of the asset, up to 30 percent of your adjusted gross income (AGI). Donating highly appreciated assets instead of cash can be one of the best ways to lower your taxes because it eliminates the need to pay taxes on the capital appreciation of the asset, AND you can deduct the fair market value of the donated asset from your AGI.

For example, if you own shares of stock in a publicly traded company and these shares have appreciated greatly, you will pay taxes on the gains when you sell the shares. The amount of tax you will pay depends on how long you have held the stock and size of your capital gains. By contrast, if you donate these shares of stock to a charity, you will pay no taxes on your gains, and you can deduct the value of the stock as of the day you made the gift. This can provide you with significant tax savings compared with selling the stock and then donating the cash. This gifting strategy works particularly well following a long bull market, like we have experienced since 2008. Regrettably, many people do not take advantage of this opportunity because they become attached to the stock. But as I remind my clients, if we still like the stock, we can always buy it again with the cash they would have otherwise donated.

2

Make Charitable Gifts from Your IRA

If you are 70½ years of age or older, you have the ability to make tax-free gifts from your IRA of up to $100,000 per year. When you make a gift directly from your IRA to the charity of your choice, your gift qualifies as part of your mandatory required minimum distribution (RMD). While you have to pay income tax on any distributions you receive from your IRA, if you give part or all of your RMD directly to charity, you will avoid realizing the income on the gift amount and thus avoid tax on it.

3

Increased Deductions for Gifts of Cash

One of the best changes was the increase in the amount of charitable gifts that can be deducted each year. If you are donating cash, you can now deduct up to 60 percent of AGI vs. the 50 percent limit that existed before this year's tax reforms were implemented.

I hope these tips prove helpful. As always, we encourage you to consult with your tax advisor before implementing these strategies.

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