5 TAX–SAVVY WAYS TO BE CHARITABLE

In the chaos of a global pandemic, charitable giving has been on the rise. Donors responded generously to meet a variety of medical and economic needs brought on by COVID-19. These altruistic thoughts can, of course, be combined with year-end strategies for charitable giving and tax savings.

Fidelity Charitable has outlined 5 tax-savvy ways to make your giving go further this year and next.

Giving long-term appreciated securities rather than cash.

The most common method of charitable giving is by check or cash donation. That said, you can also donate highly appreciated publicly traded securities such as stocks, bonds or mutual funds. When the donation is made, the donor can claim the fair market value of the security as an itemized deduction on their federal income tax return. By transferring the security in kind (not selling it), the donor will deduct the fair market value of the security (up to 30% of the donors adjusted gross income) and pay no capital gains tax. Depending on the donor's tax bracket, this is an additional tax savings of 15 to 20%!

Consider establishing a donor advised fund.

A donor advised fund (DAF) is a giving vehicle sponsored by a public charity. It allows donors to make a charitable contribution to the public charity and receive an immediate tax deduction. As the donor, you can then recommend grants to your favorite qualified 501(c)(3) public charities from your DAF.

The 2017 tax law raised the standard deduction to $24,800 (for married taxpayers filing jointly in 2020) and put a $10,000 cap on the state and local income tax deduction. Consequently, many taxpayers who qualify for the standard deduction are unable to derive a tax benefit from their donations to church or charities.

By opening a DAF, you can "bunch" your donations into one year and receive a deduction by exceeding the standard deduction credit. For example, if you typically give $5,000 per year to your church, you could possibly deposit $25,000 into a DAF, obtain a tax deduction, and then direct $5,000 to your church each year for the next five years.

Consider using a charitable donation to offset the tax costs of converting a Traditional IRA to a Roth IRA.

It is not uncommon for an individual to accumulate the majority of their assets in a 401(k) or other qualified plan. These plans represent a great way to accumulate assets in that the money is invested pretax and grows tax deferred. However, upon retirement these assets can turn into a bit of a tax trap since every dollar you withdraw is 100% taxable. On the other hand, deposits into a Roth IRA is after tax, but accumulates tax free and can be withdrawn tax-free. You can convert a Traditional IRA to a Roth IRA, but you will be taxed on the amount converted. That said, making a charitable donation possibly into a DAF might be a good way to offset the tax cost of a conversion from IRA to Roth IRA and develop a charitable giving plan for the future at the same time.

Consider donating complex assets.

Donors may also contribute complex and illiquid assets such as the stock from a closely held corporation, restricted stock, real estate, or other long-term appreciated property directly to charity. The process for making this kind of donation requires more time and effort than donating publicly traded securities but it does have advantages. For example, for entrepreneurs who have founded their own companies, the cost basis of their private C Corp or S Corp stock may effectively be zero. By donating stock to charity prior to a sale, the owner will pay less in capital gains tax.

Consider a qualified charitable distribution (QCD) from an IRA.

If you are at least 70 ½, have an IRA, and plan to donate to charity this year, another consideration may be to make a QCD from your IRA. This action can satisfy charitable goals and allows funds to be withdrawn from an IRA without any tax consequences. The QCD can also be appealing because it can be used to satisfy your required minimum distribution up to $100,000. For those who do not need all or any of their required minimum distribution for income to support their lifestyle, the QCD is a great way to fund their charitable giving and save taxes at the same time.

In 2020, the CARES act temporarily waived the required minimum distribution for IRAs and retirement plans. However, you can still make a QCD without any tax consequences.

Caveat: DAF sponsors such as the Pittsburgh Foundation, Fidelity Charitable, and Schwab Charitable are not eligible recipients for QCD's even though they are public charities.

These strategies, if properly employed, represent a tax advantaged way for you to give more to your favorite charities. Before undertaking any of these giving strategies, however, you should consult with your legal, tax, or financial advisor. The examples provided in this piece are for illustrative and educational purposes.

Fidelity Charitable, "Year End Strategies for Charitable Giving," "Fidelity Viewpoints" October 5, 2020

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