HIGHTOWER
Westchester

Year-End Charitable Giving Opportunities

Another year-end, another opportunity to reduce taxes while making a positive impact. And while this year brings less favorable deductions – with the expiration of relevant Coronavirus Aid, Relief, and Economic Security Act (CARES Act) provisions – plenty of options exist for using the tax code to make the most of your dollars.

Here are some ideas to consider and discuss with your advisors as we approach year-end.

GIFTING APPRECIATED STOCK OR OTHER NON-CASH ASSETS TO CHARITY:

This strategy is worth considering in any tax year, as it allows you to eliminate the capital gains tax you would need to pay when you eventually sell the appreciated asset, in addition to providing a deduction (if you itemize) equal to the fair market value of the asset when you donate it. Note that a deduction limit of 30% of your adjusted gross income (AGI) applies to these types of donations, whereas most cash donations have a higher 60% limit. However, you can carry over the deduction for five tax years, should it exceed the limit.

EXAMPLE – Donating Stock vs. Selling Stock to Fund a Cash Donation

		APPRECIATED STOCK DONATION	CASH DONATION
Description		Donating 1,000 shares of company X purchased five years ago with cost basis of $25 and fair market value today of $45	Selling 1,000 shares of company X purchased five years ago with cost basis of $25 and fair market value today of $45
Fair market value		$45,000	$45,000
Capital gains tax paid (20% for long-term gains)		$0	$4,000
Charitable contribution and tax deduction		$45,000	$41,000
Tax Savings	From avoiding capital gains tax	$4,000	$0
	From itemized deduction (assuming 20% effective tax rate)*	$9,000	$8,200
	Total	$13,000	$8,200

Bottom Line: Donating appreciated stock rather than selling the stock to fund the donation results in:

- $4,000 more going to charity
- $4,800 in additional net tax savings

Important note: The above example is for illustration purposes only. Please consult a tax advisor to understand the implications of this strategy based on your particular situation.

**Assumes donor's AGI exceeds $150,000 and therefore that the charitable deduction for the donation does not exceed 0.3% of the donor's AGI.*

IF YOU ARE 70 1/2 OR OLDER, MAKING A QUALIFIED CHARITABLE DISTRIBUTION (QCD) FROM YOUR IRA:

A QCD is an otherwise taxable distribution of up to $100,000 from an IRA to a qualified charity.[i] This distribution counts toward your required minimum distribution (RMD) and is excluded from your taxable income, even if it exceeds your RMD. Depending on your unique situation, making a QCD may even allow you to remain in a lower tax bracket and avoid the 3.8% net investment income tax on capital gains, interest and other investment income, applicable to taxpayers above certain modified gross adjusted income thresholds (e.g., $250,000 for married couples in 2022).

It is also important to note the following:

- Using required minimum distributions (RMD), which begin at age 72, for QCDs is often advantageous.
- QCDs can not be made from employer-sponsored retirement plans such as 401(k)s and 403(b)s.
- QCDs can not be made to private foundations, supporting organizations or donor-advised funds.
- The timing of QCDs is important so as not to inadvertently generate taxable income. For example, if you were to take a $15,000 RMD early in the year and then toward year-end make a $15,000 QCD, the $15,000 QCD will not offset the RMD you made earlier in the year; the IRS would treat the first $15,000 as taxable income.
- You must inform your tax advisor when you make a QCD, as the standard 1099-R tax document provided by IRA administrators does not distinguish between the types of withdrawals made.

BUNCHING CHARITABLE GIFTS

Bunching charitable gifts (combining multiple years' donations into one year) — perhaps through a donor-advised fund, itemizing deductions the year you bunch, and taking the standard deduction in years you don't bunch — could make sense. This is particularly the case in situations where there is a relatively small tax liability difference between taking the standard deduction and itemizing your deductions.

2022 STANDARD DEDUCTIONS	
Married, Filing Jointly & Surviving Spouses	$25,900
Head of Household	$19,400
Single & Married, Filing Separately	$12,950

Example of Bunching — Married, Filing Jointly — for Illustrative Purposes Only

		OPTION 1 No Bunching		**OPTION 2** Bunching	
Year		**2022**	**2023**	**2022**	**2023**
Charitable deduction		$15,000	$15,000	$30,000	$0
Other deductions		$10,000	$10,000	$10,000	$10,000
Total		$25,000	$25,000	$40,000	$10,000
Deduction	Standard	$25,900	$25,900	$0	$25,900
	Itemized*	$0	$0	$40,000	$0
Total deductions over 2 years		$51,800		$65,900	
Additional deduction amount (assuming 20% effective tax rate)		**Additional deduction amount: $14,100** **Estimated tax savings: $2,820**			

Important note: The above example is for illustration purposes only. Please consult a tax advisor to understand the implications of this strategy based on your particular situation.

**Please note that limits on itemized deductions exist for high-income taxpayers. Please consult your tax advisor for more detail.*

FUNDING A CHARITABLE TRUST:

Establishing a charitable trust may help you achieve multiple goals, including balancing your charitable goals with your income needs and/or providing potential tax deductions. There are two main types of charitable trusts that you can consider with your advisors — charitable remainder trusts (CRTs) and charitable lead trusts (CLTs). Both types of trusts involve gifting assets to a trust after which regular payments from the trust are either made to a noncharitable beneficiary (CRT) or charitable beneficiary (CLT) until the end of the trust's term, at which point remaining assets are paid to a charitable beneficiary (CRT) or noncharitable beneficiary (CLT). Both vehicles can benefit individuals and families who have significant charitable intentions, but they require careful planning and a full appreciation of the risks associated with them.

A YEAR-END PLAN FOR YOU

The above techniques, and other tax planning strategies, require careful, skilled consideration. Please reach out to us, and we can coordinate a custom, year-end plan with your accountant, tax attorney and any other advisors.

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[i] A qualified 501(c)(3) organization (a charitable organization eligible to receive tax-deductible contributions).