MAXIMIZE YOUR IMPACT: TAX-SAVVY PHILANTHROPY

ATLAS CAPITAL ADVISORS DECEMBER 2023 INSIGHTS

The US leads the world in charitable giving, with nearly $500 billion expected to be donated in 2023. As the end of the year approaches and the appeals from charitable organizations escalate, it is helpful to consider ways to achieve philanthropic goals with maximum tax efficiency.
The main forms of achieving tax efficiency are:

- Donating assets which would otherwise generate tax obligations to you.
  - Appreciated assets with unrealized capital gains
  - Holdings in tax-deferred retirement plans, such as traditional IRAs
- Bunching several years' giving to create a larger tax deduction in one year.

Donating Appreciated Assets

If an investment holding is donated directly to charity, the current market value of the investment qualifies as a charitable deduction, and any unrealized gain is not taxed. This is an underutilized benefit – according to a recent study fewer than 20% of charitable givers have ever donated appreciated stock.

Suppose you had the luck or foresight to invest $10,000 in Apple Computer stock twenty years ago. Your investment would now be worth about $600,000. If that investment were sold in a single year, it would be subject to a 20% long-term capital gains tax, or $120,000 in Federal taxes. A California resident would owe $74,000 in state taxes as well.

Alternatively, if the ownership of the Apple stock were transferred to a qualified charity, no taxes on the gain would be owed by you or the charity. Moreover, you would obtain an itemized tax deduction for the full market value of the stock at the time of the transfer. For someone in the top tax bracket, this deduction would be 37% of the amount over the standard deduction. There's an annual limit to deductions of the value of stock donations of 30% of Adjusted Gross Income, but you can carry the excess forward for up to five years. Because the gain is not taxed and instead becomes a valuable tax deduction, you end up with significantly more assets for yourself and your causes.

Donating Retirement Plan Assets

If a transfer is made from a tax-deferred retirement account directly to a qualified charity, the transferred amount is not taxable for you or the charity. This type of transaction is a Qualified Charitable Distribution (QCD), another tax-saving technique which is not widely utilized.

For instance, suppose you have a traditional IRA and have reached the age where you must make a Required Minimum Distribution (RMD) of $100,000. If the $100,000 is transferred to your own account, it would be taxed as ordinary income at the federal and state levels. If it is transferred directly to a qualified charity as a QCD, neither the charity nor you would pay taxes on the amount. The QCD amount does not qualify as an itemized deduction for charitable giving, but it also does not count toward the limit on how much charitable giving is deductible. Most individuals who wish to make charitable contributions and are in the stage of life where RMD's must be taken would benefit by making their donations with QCD's from their tax-deferred retirement plans rather than from their taxable accounts.

Bunching of Charitable Giving

It can make sense to consolidate charitable deductions in one year to benefit from having a higher itemized deduction that year. That is especially true if the year would be a one-off high-income year, with a higher than usual tax bracket.

When filing tax returns, taxpayers must choose between taking the standard deduction or itemizing deductions. The 2023 standard deduction is $27,700 for a couple filing jointly. If the sum of all charitable giving and other itemized deductions comes to less than the standard deduction, then the standard deduction is the better choice. There would not be any incremental tax benefit for the charitable donations which were made. An individual who bunches multiple years of charitable donations into one year can generate a large enough amount of giving that year to benefit from itemizing deductions.

The most straightforward way to bunch is to simply make the donations planned for a number of years all at once. For instance, instead of donating $10,000 per year for five years, donating $50,000 in one year. More complex methods include creating a donor-advised fund (DAF) or charitable lead annuity trust (CLAT) to make regular charitable donations over time. For DAFs or CLATs, the amount contributed can be deducted in the initial year, even if the charitable giving is spread over multiple years. With any of these approaches, the point is to reach a level of charitable giving in one year that maximizes the tax benefit of the itemized deduction for charitable giving.

Useful topic for advisor discussion

We hope this paper encourages you to explore the range of possibilities for reaching your charitable giving goals in a tax-efficient manner. There is a high probability that tax-saving strategies are available which would leave you and your causes with more assets. Your financial advisor can identify which options are best for your situation and help ensure that all the required steps and documentation are executed properly. You can make inquiries with Atlas Capital Advisors at info@atlasca.com.

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