Make The most of Your Charitable Giving

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Once again the holidays are here, and families across the country are starting to think about their charitable giving and their year-end donations to organizations they care about most.

Yet the decision of how to give is often overlooked. Because while donating time or money is inherently valuable as a means of impacting the world for the better, there are personal benefits to charitable giving which can also be realized by optimizing your donations to maximize your income tax deductions.

Last year's Tax Cuts and Jobs Act makes it critical for investors to think carefully about how they give. The new rules doubled the standard deduction to $12,000 for singles and $24,000 for married couples filing joint returns.

Here's what you need to know to navigate these complications and ensure you're giving as efficiently as possible.

1: Utilize donor-advised funds

Families and individual donors who've enjoyed charitable tax deductions for smaller contributions in the past won't realize those same benefits today. The increased standard deductions and reduced limits to state and local tax deductions can wash out smaller gifts.

If you fall into this camp, it might be wise to consider a Donor Advised Fund (DAF).

DAFs allow you a certain flexibility when making smaller donations. Through DAFs, you can front-load several years' worth of charitable donations into a single tax year gift. That single contribution will qualify for income tax benefits for the year you invest it in the fund. As the donor, you then recommend grants to charities out of the fund's assets, or you allow the funds to grow inside your account.

Here's what it looks like in practice: if you normally give $5,000 per year to charities, you instead set up a DAF and contribute $25,000 once every five years. Each year, you would continue gifting your $5,000 to organizations as you see fit—you can make grant recommendations to any IRS-qualified public charity. Even during the years when you're not contributing—and still receive your tax deductions because you will have qualified for the income tax benefit with your initial contribution. When it comes time to complete your taxes, you'll simply report that initial gift to your DAF.

This proves more efficient, too. In addition to enjoying the full tax deduction, you will not need to track down confirmations for every gift you make from the fund.

Finally, DAFs offer significant tax advantages for gifts of non-cash assets. By contributing long-term appreciated assets such as bonds, stocks, or real estate, you can avoid the 20% capital gains tax and the new 3.8% Medicare surcharge you would have incurred selling the assets yourself. This allows you to give **23.8% more** to the organizations that matter most to you, while also receiving a charitable deduction for the fair, full market value of your donated assets.

One important limitation is that you cannot use your DAF to fulfill a legally binding pledge. The Internal Revenue Code prohibits donor-advised fund grants from providing a "more than incidental benefit" to donors or related parties. Since the DAF and not you personally own the assets, you'd receive a benefit from the fact that you get credit for the pledge while the DAF has the liability to fulfill your pledge.

One way around this is that you can use a DFA if you have a "non-binding" pledge. A "non-binding" pledge is one where you have not made a legal commitment to fulfill the pledge. Instead you are stating that you plan to make future gifts. If the organization you are working with requires something in writing, you should consider using a non-binding letter of intent. This allows you to summarize your intent without making a legal commitment.

2: Gift directly from your IRA to meet your Minimum Required Distribution (MRD)

Your MRD is the required amount of money you must withdraw from your retirement account each year. You generally have to start making your withdrawals when you reach age 70½.

The good news is that charitable gifts made directly from your IRA count toward your MRD. This means gifting directly from your IRA allows you to reduce the amount of taxable income you are forced to recognize by the MRD requirement.

If you're 70½ years or older, you can donate up to $100,000 to charitable organizations through Qualified Charitable Deductions. Gifts must be made directly to a qualified charitable organization, meaning you cannot funnel these contributions through a Donor Advised Fund.

You can make Qualified Charitable Distributions from Traditional, Rollover and Inherited accounts. As well as SEP and SIMPLE accounts, as long as the plans are no longer active. In any case, the current account owner must be at least 70½ years old. Even in the case of an Inherited IRA, it's based on the current owner, not the original owner of the account.

3: Involve your kids to benefit your entire family

However you donate, it's a good idea to involve your family in your philanthropic strategy. This provides an opportunity to sit down and walk them through your philanthropic decisions. As it happens, this is a great way to educate kids about charitable giving.

To this end, a good idea is to set up a fund in your family's name. This enables everyone in your family to take part in the inherently exciting experience of giving back, as opposed to the family matriarch or patriarch making such decisions alone. Furthermore, by talking honestly with your kids about 1) why you give and, 2) how to give back, you can teach them to engage in philanthropy intelligently.

If your kids are older, you may want to go a step further and help establish DAFs of their own. You yourself then receive the deduction for any gifts you make into their DAF and at the same time can encourage them to make their own gifts into their funds.

As your children begin to find their own causes, they'll be in a position to use funds from their DAF to make gifts to organizations that are meaningful to them. Depending on how long the funds stay inside the DAF, the impact of their gifts can grow to double or triple your original contribution.

Regardless of how you give, we can help.

With 2019 quickly coming to a close, now is a great time to review the gifts you made this year and think about any final gifts that need to be made. As you do, consider opening a Donor Advised Fund and talk to your advisor.

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