Key Private Bank

A how-to guide for charitable giving: Making the most of your donations

Charitable giving is first and foremost about philanthropy — a desire to put your money to work to advance causes that matter. Simply put, it is the combination of your personal values and resources to make the world a better place.

Affluent households donate for a whole host of reasons, and taking advantage of tax breaks is low on the list of motivations. Still, tax benefits are an important secondary consideration when giving, one that requires a closer look especially with recent changes to the tax laws.

Charitable giving overview: a new tax landscape

Since 1917, individual taxpayers who itemized have been able to receive a tax break on their charitable gifts. For these taxpayers, charitable donations have worked like buying something at a discount. For example, a gift of $1,000 to a favorite charity costs only $760 if you are in the 24% tax bracket. However, the enactment of the Tax Cuts and Jobs Act in 2017 has reduced the federal tax benefit for many households. Beginning in the 2018 tax year, the standard deduction has been nearly doubled to $12,000 for a single taxpayer and $24,000 for married couples filing jointly.

As a result, far fewer taxpayers will itemize and receive an actual tax break for their charitable gifts compared with prior years. In addition, individual tax rates are reduced, which means that the tax benefit of giving will decline for those who itemize.

Many household donate even if they do not claim a deduction, which tells us that taxes do not drive the decision to give. In fact, while only about one-quarter of taxpayers itemize their deductions, almost 60% make charitable contributions during the year.[1]

Understanding the factors impacting tax benefits

For itemizing taxpayers, the tax benefits of charitable giving will depend on factors that include:

- The type of asset contributed (see How Donors Give table).
- The basis and fair market long-term value of the assets donated.
- The type of charity to which the gift is donated.
- The income level and tax bracket of the taxpayer. As a rule, an individual cannot offset their entire income in a year with a sufficiently large charitable gift. Either a 50%, 30%, or 20% Adjusted Gross Income (AGI) limit applies to the deduction in the current year, depending on the aforementioned factors. For large charitable gifts, amounts in excess of those limits can be carried forward for five more years.

A Nation of Givers

Donations to US charities surged to $410 billion in 2017, exceeding the $400 billion mark in a single year for the first time. Giving by households represents the vast majority of contributions received by nonprofit organizations: Donations by individuals represented 70% of total giving, while bequests added another 9%. Over 90% of high-net-worth households make charitable contributions.[2]

How Donors Give			
• Cash or check • Credit card • Online/electronic transfers	• Difficult • Designated retirement assets • Marketable securities	• Non-financial assets (real estate, collectibles, artwork, etc.) • Closely held ownership interests	• Crowdfunding • Estate assets

Some of the most tax-efficient assets to give to charity are marketable securities that have appreciated and are capital-gain property (held 12 months or longer). By donating an appreciated asset directly to the charity, you receive a deduction based on the fair market (in this example we're assuming these are assets held long-term, at least 12 months) value of the property, and neither you nor the charity pay a tax on capital gains if the asset is sold.

An introduction to charitable gifts

Bundled gifts

The new law concerning standard and itemized deductions means that many taxpayers will find it beneficial to bunch anticipated charitable giving from two or more years into a single tax year.

Type of charitable gift:
Donor advised fund

How to utilize this gift:
The basic concept of a donor-advised fund is straightforward:

- You contribute to the fund and subsequently recommend specific grants to favorite charities when you are ready.
- You can claim a tax deduction for the year in which you put assets into a donor-advised fund; the amount and timing of any actual grant has no bearing on the tax deduction.
- Donor advised funds are typically invested and grow tax-free.

Donor advised funds also enhance giving flexibility. You do not have to identify nonprofit beneficiaries when you make tax-deductible contributions to your donor advised fund, and you can distribute your contributions and investment gains to recipients over as long a period as you wish.

Type of charitable gift:
Qualified charitable rollover (distribution)

How to utilize this gift:
An individual who is 70 1/2 or older can take a non-taxable distribution of up to $100,000 from their individual retirement account (IRA) if that distribution is made directly to a charity under Internal Revenue Code (IRC) Section 170(b)(1)(A). In general, public charities qualify for a distribution, but donor-advised funds, private foundations, and charitable supporting organizations do not. While eligible donors are limited to $100,000 in gifts in a given year, there is no requirement that the entire amount must go to one charity or be made in one transfer.

Making a qualified charitable rollover from your IRA has important advantages:

- The distribution can satisfy or help satisfy your required minimum distribution from an IRA.
- The qualified charitable distribution is excluded from your adjusted gross income for the year in which it is taken, thus providing a tax break. If you instead make a typical charitable contribution — not via a qualified charitable rollover — and do not itemize, you gain no income tax benefit at all. Of course, the donation in a qualified charitable distribution cannot be counted as a charitable contribution for tax purposes since the gift is already excluded from gross income.

Planned giving

For affluent families that have secured their lifestyles and have available assets, planned gifts offer another tax-efficient means for philanthropy. Planned giving incorporates a framework of L.O.L. — Lifestyle, Offspring, Legacy — to create an effective approach to giving that is suited to your particular needs, interests, and circumstances.

Planned gifts can make it possible for you to give more than would otherwise be the case, while providing important tax advantages to you. There are a variety of planned giving options.

Type of charitable gift:
Charitable remainder trust (CRT)

How to utilize this gift:
- Gifts to a CRT tend to be larger, which may enable you to itemize in the year that you make a contribution to the trust.
- You put assets into an irrevocable trust, which removes assets from your estate and permits an immediate charitable income tax deduction.
- Income from the CRT flows to designated beneficiaries. Upon the death of the beneficiaries receiving the trust income or the expiration of the term of years, the remainder goes to the designated charities.
- Combining charitable giving with an ongoing income stream, a CRT is an effective way to convert low-basis assets into lifetime income, generate substantial tax savings, and provide support for important causes.

Type of charitable gift:
Charitable lead trust (CLT)

How to utilize this gift:
- A CLT is basically a CRT in reverse.
- First, the charity receives an income stream from assets placed in the trust.
- At the end of the specified trust term, any income and principal remaining in the CLT can either revert back to you or pass to other designated non-charitable beneficiaries.
- A CLT enables you to donate to charity while producing an estate or gift tax deduction for the value of that portion of the trust designated for charity.

Type of charitable gift:
Family foundation

How to utilize this gift:
- Establishing a family foundation enables you to amplify your philanthropy and establish a legacy of giving.
- Giving through a private foundation offers significant advantages versus donating as an individual by making it possible for you to:
  - Reduce your income tax for each year in which you make a contribution.
  - Reduce or eliminate potential estate taxes.
  - Avoid capital gains taxes on assets transferred to the foundation.
  - Grow your charitable assets in a tax-advantaged vehicle.
  - Transfer control of the foundation's assets to future generations.

Make the most of giving

After you have identified a charity with a mission that you wish to support, you need to make sure that (1) it is a legitimate, reputable organization and (2) it is effectively using donations for the purpose intended. Relying on the information that a charity provides on its own website or marketing and fundraising materials is not enough. To gain impartial insights, you need to turn to an independent third-party service.

These services provide the best information to donors, so consider using one or more of them when you do your research.

Service:
Charity Navigator

- Charity Navigator provides an unbiased, objective, numbers-based rating system to assess over 9,000 of America's charities.
- Ratings intend to show how efficiently a charity will use their support today, how well it has sustained its programs and services over time, and the charity's level of commitment to good governance, best practices, and openness with information.

Website: https://www.charitynavigator.org/

Service:
CharityWatch

- CharityWatch assigns letter grade ratings and provides other statistics on the financial performance of approximately 600 major American charities.
- CharityWatch conducts in-depth analyses of audited financial statements, annual reports, IRS Form 990 filings, and other data to show how a charitable organization uses funds.

Website: https://www.charitywatch.org/home

Service:
BBB Wise Giving Alliance

- BBB Wise Giving Alliance produces reports about national charities, evaluating them against comprehensive standards for accountability.
- Give.org includes over 1,200 reports on national charities. In addition, many local Better Business Bureaus produce reports on locally soliciting charities using the same standards.

Website: https://www.give.org/

Service:
GuideStar

- GuideStar maintains data on 2.4 million current and formerly IRS-recognized nonprofits.
- GuideStar Nonprofit Profiles are populated with information directly from nonprofits, the IRS, and other partners in the nonprofit sector. In addition, users see GuideStar data on more than 200 philanthropic websites and applications.

Website: https://www.guidestar.org/Home.aspx

Optimizing your philanthropic mission

Key Private Bank's seasoned wealth management professionals work closely with you to help make decisions that fit your values and support your philanthropic goals.

To learn more about how to best meet your charitable giving goals in the current tax environment, please contact your Key Private Bank Advisor.

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[1] "21 Million Taxpayers Will Stop Taking the Charitable Deduction Under The TCJA," Tax Policy Center. January 8, 2018. https://www.taxpolicycenter.org/taxvox/21-million-taxpayers-will-stop-taking-charitable-deduction-under-tcja

[2] "Giving USA 2018: Americans Gave $410.02 Billion to Charity in 2017, Crossing the $400 Billion Mark for the First Time." Giving USA. June 2018. https://givingusa.org/giving-usa-2018-americans-gave-410-02-billion-to-charity-in-2017-crossing-the-400-billion-mark-for-the-first-time/