FINANCIAL SERVICE GROUP, INC.

CHARITABLE GIVING GUIDE

Whether you're looking for ways to reduce your taxes or leaving your life legacy, this useful guide will help you explore your charitable giving options.

www.ToYourWealth.com

Motivated to give

Giving to others, especially those in great need, is a core value for most individuals. Acts of charity may take many forms. Some choose to give their time, others offer their talents, still others opt to share their financial resources. Regardless of the method of giving, the impulse to help others is common and is not the exclusive domain of the very wealthy. Giving to others in need helps the receiver and the giver reap a wealth of intangible benefits and many have some tax saving advantages as well.

In recent times, we have seen people stepping up to help others at record-high levels. According to a June 2021 study by Giving USA, American charitable giving hit $471 billion in 2020, a 3.8% increase from 2019. The largest increase in percentage terms was to local giving. Vanguard Charitable reports that homeless shelters and food pantries saw a rise of 147% in donations over 2019.

The global pandemic certainly appears to have been a catalyst for giving as are other tragic or extraordinary events. However, many people opt to have a gifting strategy as a part of their overall financial life plan.

Focus your attention (and giving!) on what matters most to you

With so many causes and organizations focused on doing good work in their local communities, nationally or even globally, it can be overwhelming to identify where your giving will have the most impact.

When considering why and where to donate, begin by identifying the causes or organizations that are most important to you and your family. By focusing your attention on areas that resonate with your values and intentions, it's easier to narrow the list of potential causes to support.

Focusing your attention helps you target your financial support toward fewer organizations where you may be able to give a larger dollar amount rather than donating smaller amounts to a broader array of entities. While most charities would not turn away $10 or $20, the impact of such donations is more limited. Some organizations spend more than that on the marketing material they send to solicit your support, resulting in a negligible amount left for the purpose.

Giving is growing

When it comes to giving plans that involve donating wealth, the elements of several different dimensions – demographic trends, market performance, advances in financial services, increased need, and potential changes to the tax code – are combining to create unprecedented amounts of giving.

There are several other reasons that played into increased giving that are likely to continue in the future. The more than decade-long strong performance of the equity markets means that wealth has increased dramatically. Stimulus programs that helped keep the economy moving also boosted consumer balance sheets as consumers elected to pay down debt. The likelihood that tax rates will increase, and tax code changes will potentially alter existing tax-advantageous strategies, is making it a priority to take advantage of the tax benefits available now by compressing a timeline for giving.

Additionally, the wealthy older generation is acting on their desire to leave a legacy through various acts of charity that allow them to continue having a positive impact beyond their death.

Advantage of working with a local community foundation

Partnering with a local community foundation can be used as the intermediary to send funds to specific charities with or without the recipient knowing the identity of the donor. Maintaining anonymity can help reduce the number of direct solicitations you receive.

A common misconception about community foundations is that you must be wealthy to set up a fund and use their services for distributing gifts to causes/organizations. Many community foundations wish to encourage giving even for donors of modest means. They often offer specific funds that can start small and grow over time to be used for making charitable contributions.

Giving strategies to fit your goals

Working directly with a community foundation to facilitate your donations can be effective and efficient. There are also other strategies and vehicles to consider adding to your charitable giving plans.

- **Trusts avoid probate and are customizable.** For many financial giving strategies, setting up a trust makes sense. There are many situations in which investors at all income levels can benefit from a trust structure. However, they are complicated legal structures with expense involved. Many investors who do not want a trust-based giving strategy are now turning to donor advised funds (DAFs).

- **Charitable Remainder Trusts (CRTs) transfer appreciated assets in a tax-efficient way with the ability to provide for a charitable cause.** For many people who have made charitable gifting part of their life goals, leaving a legacy rank high as well. Among the top reasons for creating an estate plan are to provide for family financially, to streamline the inheritance process, and to leave a legacy.

A CRT is a tax-exempt trust that allows you to donate to the charity of your choice, while provisioning for a noncharitable beneficiary, such as the creator of the trust or any named individual or group.

A donor can avoid federal estate taxes with CRTs because the appreciated property is removed from the estate. Because it is donated to a tax-exempt charity, the sale of the assets is not subject to capital gains taxes. For assets that have appreciated this can be a way to monetize the asset to the maximum extent and then create an income stream with the proceeds, leaving behind the remainder to fund a legacy for the charity.

It is important to remember that CRTs are irrevocable, meaning that once tax relief is granted for the sale of an asset, the relief can't be revoked. The asset is also protected from claims by creditors since the asset is no longer in the donor's books.

Once a CRT is created, the property is transferred to the trust and its value is determined. The annual income stream paid out to the beneficiary of the trust can be either a fixed percentage of the value or a fixed dollar amount.

This all gets complicated, so it is always advisable to consult with your accountant or financial advisor for the tax implications of your charitable gifting strategies.

- **A Charitable Gift Annuity may be a less complicated strategy for the donor and ensures a lifetime income.** A gift annuity agreement is not a trust. It is a lifelong contract between a non-profit organization and an individual or couple. Many large non-profit organizations, including some universities, offer charitable gift annuities. Not all non-profits have this giving option, so check with a charity's planned giving department who can share their information and offered rates if available. Minimum gifts for establishing a charitable gift annuity may be as low as $5,000 but are often much larger.

Using this giving strategy a donor donates, using cash, securities, or gifts of personal property, to an individual non-profit charity. That gift is set aside in a reserve account and invested by the non-donorprofit. Based on the age(s) at the time of the gift, the donor receives a fixed payout for the rest of that donor's life which could be monthly or quarterly depending on the terms. The terms of the gift annuity agreement will lock in the rate, amount, and timing of all payments donors receive. At the end of the donor's/spouse's life, the charity retains the remainder of the gift and payments to the donor(s) cease.

Donors may also be eligible to take a tax deduction at the time of the original gift, based on the estimated amount that will eventually go to the charity after all the annuity payments have been made. **As always, check with your tax or financial advisor for guidance when entering a Charitable Gift Annuity contract.**

- **As a provision of the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2019, individuals who do not itemize their deductions on their federal tax returns can donate and deduct up to $300.** For 2021, married couples filing jointly can donate up to $600 jointly.

The standard deduction is $12,550 for singles and $25,100 for married (plus additional amounts is 65+). You only take itemized deductions if you are over these thresholds. So, if your charitable donations (combined with other itemized deductions like property tax, state tax, health, etc.) are less than these thresholds, you won't get a federal tax benefit for the donations. One way to address that is with QCDs from your IRA if you are over 70½ years old.

- **Qualified Charitable Donations (QCDs) are paid from a taxable IRA.** If you are over 70½, you may consider making a **Qualified Charitable Donation (QCD).** A QCD is paid from a taxable IRA directly to a qualified charity. A qualified charity is a non-profit organization that qualified for tax-exempt status. You can check to make sure they qualify as tax-exempt at https://www.irs.gov/charities-non-profits/tax-exempt-organization-search

Make sure to keep track of any donations made via QCDs as the Form 1099-R you'll receive in January from your IRA custodian will include the donated amount in the taxable income box. It's up to you to reduce this amount on your tax return when you file. Just like any charitable donation, you'll want an acknowledgement from the charity in case the IRS requests evidence of the donation. Therefore, it's best to submit the donation before the end of the year so the charity has time to deposit the check. Unfortunately, QCDs cannot be used for donor advised fund contributions.

- **Donor advised funds allow for donations of highly appreciated stock or other assets**. The donor receives an immediate tax deduction but does not have to apportion the money to different charities right away. The money can stay in the account for years, be invested according to the donor's wishes, and then ultimately be allocated to charity.

Donor advised funds are irrevocable, meaning that you can't withdraw funds after donating. Still, you can specify how the donation is to be invested and to which charity you'd like to donate. The National Philanthropic Trust cites data from 2015 – 2019 to underscore the increased popularity of these vehicles. Contributions to DAFs totaled $38.31 billion in 2019, up 80% since 2015. And people are increasingly allocating the money in their donor advised funds to charities they have selected. More than $25 billion in grants to charitable organizations were made from DAFs in 2019, a 93% increase over 2015.

There are many situations where it may make sense to contribute to a donor advised fund, but some of the most common are:

- If you own highly appreciated assets
- If you're looking for a tax-deductible transaction
- If you want to make a sizable future donation

Donor advised funds have been around for decades, but they've only become wildly popular vehicles for charitable giving over the last several years. They offer immediate tax benefits as the assets or funds in the donor advised fund convey a tax deduction in the year in which they are gifted. Inside the fund, the assets can grow tax-free and do not have to be distributed immediately to a charity.

The funds offer an extremely flexible way to craft a gifting strategy that can allow for the gift to be invested and managed, to potentially grow over time, and for the donor to maintain control over the assets.

With donor advised funds, you aren't limited to donating just cash. Acceptable donations range from stocks and bonds to bitcoin and private company stock. Donors can generally deduct up to 60% of adjusted gross income if donating cash (check/wire transfer) and up to 30% of adjusted gross income if donating appreciated assets.

To make sure a donation qualifies for the full benefits, the fund administrator must be a public charity that falls under the qualifications of a 501(c)(3) organization.

How DAFs are managed and how to contribute. First, a donor advised fund must be opened at a qualifying sponsor. After selecting a sponsor, the donor/donors must make an irrevocable contribution to the fund. At that time, they can take the immediate tax deduction and begin naming beneficiaries and successors for the account.

After contributing, the sponsor firm then has legal control over the funds. It can invest the money in accordance with the donor's recommendations, until the donor is ready to decide to which charity they'd like to distribute the funds. Since the fund manages the money and handles the administrative tasks that come with donating to charities, administrative fees need to be considered when deciding on which sponsor to use thoughas those fees are deducted from the donor's contributions.

The pros and cons of donor advised funds. As indicated, when contributing money to a donor advised fund, the donor receives an immediate tax deduction on the amount they contributed, even though the funds may not be distributed to a charity until a future date. This allows for greater control and flexibility when compared to making a regular donation directly to a charity.

Additionally, contributing to a donor advised fund makes record-keeping simpler than making multiple donations to different charities and keeping track of all the documents. This is because the fund can act as a "hub" for all donations, and it will record all contributions and provide a single tax document containing all information needed.

A concern among many donors is the fees associated with donor advised funds. For example, the fund might charge a 1% administrative fee, which is being taken directly out of the funds to be donated. The underlying investments may also have fees, so it's important that you carefully evaluate where your money is going and how fees play a role in the donation.

Overall, donor advised funds are a versatile tool when it comes to making donations. They can provide tax benefits and allow donors to choose where their money goes while those donations grow tax-free until a charity is chosen.

Unless the total of your itemized deductions exceeds the standard deduction ($12,550 for single individuals and $25,100 for married couples filing jointly in 2021), you won't derive all of the benefits of these giving strategies. This sometimes leads donors to lump multiple years of donations in a single year to exceed the standard deduction (which is another reason for using donor advised funds).

However, there's more to consider than just the benefits so make sure it's the right move for your financial situation**. It's recommended to talk with a financial advisor before establishing a donor advised fund.**

Volunteering is good for the heart

Of course, gifting strategies aren't limited to making financial contributions. Many people find great satisfaction from giving their time and/or talents to causes and organization that resonate with their goals. Spending time in your community and volunteering at a food kitchen or charity, for example, make an impact and volunteers often report having higher personal satisfaction and gratitude than those who don't volunteer. Additionally, you may also be able to deduct volunteer expenses if you purchased any supplies or had significant travel costs.

The bottom line on charitable giving

There is little dispute that giving to others benefits both the recipient and the donor. There are numerous options for gifting that allows people of all financial levels to make a difference in their communities or to causes they support. Whether your charitable giving involves time, talent, or financial resources, you have options when it comes to helping others.

Speak with one of your Financial Service Group, Inc. CERTIFIED FINANCIAL PLANNER™ professionals about how to include charitable giving in your financial and retirement plans.

TOYOURWEALTH.COM | 262-554-4500