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SERIES

Tax Effective Ways to Make Charitable Donations

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Many people envision writing a donation check to their favorite charity as a way to support an important cause and share their wealth, but there are other ways to give that are just as beneficial and tax efficient. At Cambridge Trust Company, we know how important giving back to the community is for our clients and we help them to understand the ways that are most beneficial to themselves and to their favorite charitable organizations.

Direct Benefit

Direct benefit donations to charity include gifts in kind, cash, or stock. Each method has its advantages for the charity and the donor. Gifts in kind, such as goods or services, give the charitable organization exactly what it needs, while the donor can contribute items no longer wanted or used, such as clothing or vehicles. When an individual donates goods to a charitable organization, such as the Salvation Army, they can request a receipt for the estimated value of the donation, which may be tax deductible.

In the same vein, cash donations are simple, have an immediate impact for the organization, and the contribution may also be tax deductible under certain limitations. Tax laws and regulations could limit the deductibility of charitable gifts based on several factors, including the donor's income, the type of gift made, and the type of organization to which the gift is made. In most cases, the gift's deductibility is restricted to 50% of the donor's adjusted gross income (AGI). In some instances, stricter limitations such as 20% or 30% of AGI apply. More information is available on the IRS website (www.IRS.gov) or from the donor's tax preparer.

Donating shares of stock in kind becomes a bit more involved for both parties, but is also a tax-effective way of giving. Prior to donating stock, the donor needs to obtain information from the recipient organization regarding how the security would be delivered and the recipient has to be able to receive the stock, i.e., does the charity have a brokerage, endowment, or investment management account at a financial institution that can accept delivery of shares of stock. The best stocks for donating in kind are those with a low-cost basis held for the long term (more than 12 months). Donors may also consider selecting a highly concentrated stock from their portfolio. By gifting this type of stock the donor would not pay taxes on the realized capital gain of the stock if sold, and may trim or eliminate a stock position they are already looking to diversify for portfolio rebalancing purposes. Ultimately, this type of donation benefits both the donor and the charity by giving more money to charity than if the donor sold the stock, paid taxes on the gains, and then donated the net proceeds as a cash contribution. The charity, as a qualified tax-exempt organization, then has the option to hold or sell the security. The donor also has the benefit of rebalancing their portfolio without potential tax consequences.

When individuals gift goods or services in kind, cash, or stocks to a qualified charity, these gifts are potentially advantageous in reducing the donor's current income tax liability. We recommend consulting with a tax preparer, trust officer, or other professional financial advisor regarding tax savings.

IRA Required Minimum Distributions (RMDs

Donors also have the option to donate their IRA Required Minimum Distributions (RMDs) directly to a qualified charity utilizing the Qualified

Charitable Distribution (QCD) rules. The QCD allows for individuals age 70½ or older to make a donation of up to $100,000 of their RMD to a qualified charity. For those charitably-inclined individuals who may not need their RMD for day-to-day living expenses, this provision could simultaneously satisfy their RMD payout requirements and charitable gifts. The amount of the QCD is not included in the taxpayer's gross income and therefore not included on Schedule A of their tax return as a charitable contribution. This arrangement allows the taxpayer to avoid income taxes on the amount of the QCD by excluding the amount from their AGI. In addition, the lower AGI amount benefits the taxpayer in relation to other Schedule A deductions subject to AGI limitations, such as medical and miscellaneous deductions. Since its introduction, the QCD provision has been a popular tax savings strategy for individuals subject to both the RMD payout requirements and those who are planning to donate to charity anyway. Historically, the QCD provision has been subject to expiration, however because of the provision's popularity, it has been made permanent under the Protecting Americans from Tax Hikes (PATH) Act of 2015.

Donor Advised Funds (DAF)

A donor advised fund (DAF) is a good option for someone who wants to make a donation with an immediate tax deduction, has noncash assets, and is uncertain about what charities to support. DAFs allow for professional management of those assets for donors who would like to institute a family legacy of giving without setting up a family foundation. With DAFs, donors make charitable contributions that are eligible for immediate tax deductions, up to 30 percent of their AGI for contributions of securities and up to 50 percent for cash contributions. Donors can make recommendations for distributing the funds to qualified nonprofit organizations over an extended period of time if they so choose. They may also choose to have the assets professionally managed until they decide where they want their gift sent. Some donors find that the ease and long-term horizons of DAFs work well for their charitable giving plans. They serve as a convenient alternative to private foundations, and offer a level of separation between the donor and the charity that might be preferable for those who wish to remain anonymous. Critics of DAFs note that the lack of pressure to distribute the assets within the fund to charities undermines the purpose of giving and serves as more of a holding pen than a conduit. Others note that companies offering these funds also manage to profit from them and often times the fees are opaque and reduce what is intended for charitable purposes. However, for those looking for a convenient and tax-efficient way of donating to a variety of qualified charities, DAFs are a fair option.

These are just some of the many vehicles available to our clients who wish to make a charitable contribution. Other options include establishing a charitable remainder trust, a charitable lead trust, or a private foundation. Regardless of the giving vehicle or method you choose, make sure to complete your donation before the end of the year. Talk with a Cambridge Trust Company Trust Officer to learn more about charitable giving alternatives that are a good fit for you and your financial situation.

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