2021 Charitable Insights

November 2, 2021

Executive Summary

- Charitable gifting should be considered as part of your overall financial plan.
- Gifting on an annual basis may not be the only or most efficient manner of giving.
- Including family in the gifting conversation can be an effective way to pass values and connect with children and grandchildren.
- Supporting a charity in an estate plan can be accomplished while still providing for heirs.
- PCM can help you navigate gifting options that align with your goals and wealth.

Including Charitable Gifting in your Financial Planning

Having a deadline is helpful to many of us. In such a busy world with so many things coming at us from different directions it is easy to put things off that don't have a deadline. Most who are charitably inclined are passionate about the charities they support and often times are able to contribute additional funds because of the resulting tax benefit. The December 31st tax deadline, however, has moved most of us in the direction of gifting when that deadline nears. As that deadline nears this year, we encourage you to consider how your charitable ideals are being incorporated into your overall financial plan. Does your family understand your charitable goals? Have future generations been included in those charitable conversations? As with most things, planning ahead generally results in a better outcome.

There are many ways outside of direct cash and stock gifts, to incorporate charitable gifting into your financial plan. These options range in complexity, but PCM advisors can work with you to determine what is best for your specific financial situation and goals. Here are some options you may want to consider:

Cash donations – this is by far the simplest way to gift to a charity. Contributions can be made in a variety of ways, but generally involve giving funds directly to a charitable cause. Depending on the type of charity the donation goes to, the tax deduction can be 50% or 60% of your AGI (adjusted gross income.)

Appreciated Stock – when you gift stock that has grown in value you are able to gift the full fair market value to the charity; and, if you itemize your taxes, you can also deduct the fair market value up to 30% of your AGI. By gifting appreciated stock, you avoid the capital gains and any other associated tax on the stock that you would have otherwise been liable for had you sold it and then gifted the cash. As a result, the charity receives a larger donation. This is a good method to pare back an investment that no longer fits with your portfolio allocation but has a tax liability that discourages selling.

Qualified Charitable Distribution – for those who have reached the age where you are required to take a distribution (taxable) from your IRA each year ("RMD") but may not need the full distribution to fund living expenses, a QCD is a charitable option for that RMD. A direct transfer of funds from your IRA to a qualified charity can satisfy your RMD for the year. All of the amount donated is excluded from taxable income. This method of donating to charity will reduce taxable income for the year (your RMD would have added to income) and will reduce the amount of the IRA resulting in the potential for lower future RMDs. There are some charities that do not qualify for this type of contribution, most 501(c)(3) organizations are eligible, however. A QCD is reported as a normal distribution on form 1099-R, because of this you will need to let your tax preparer know if the distribution went directly to a charity.

Donor Advised Fund – a Donor Advised Fund is a giving vehicle offered by a public charity. This means that the fund is a charity and contributions to your fund qualify for a tax deduction for the year of the contribution, depending on the type of donation made (cash, securities, other assets). Once contributed, your donation is then available to be allocated to charities you select at a later date, the funds are also able to be invested and continue to grow for future gifting. A donor advised fund is a fantastic way to include family in philanthropy by encouraging the younger generations to consider their values and teaching them how to research and allowing them to select causes that reflect their core values. Involving the whole family in giving conversations results in a learning experience for everyone involved and can deepen a family's connection surrounding legacy goals. The ability to choose many different charities and the ability to gift throughout the year is a nice feature of a donor advised fund. Finally, a donor advised fund may also be used as a designated charity for other planning methods.

Beneficiary Designations – naming a charity or group of charities as the beneficiary on a qualified account (e.g., IRA or 401k) is an easy way to pass funds to a charity once the account holder passes. Qualified accounts are taxable to the non-charity beneficiary and are now required to be fully distributed within 10 years. In other words, leaving a large IRA to someone could be a significant tax burden. Thus, it is worth considering the beneficiary's financial situation and any other assets that may be available for an inheritance. You can divide retirement assets between charities and other heirs according to any percentages you choose. You can also designate a donor advised fund as the beneficiary of a retirement asset furthering any legacy goals started during life.

Charitable Trusts - are irrevocable trusts that can be drafted to benefit the giver, beneficiaries, and a charity all at the same time. Charitable trusts allow the conversion of a highly appreciated asset into income and principal for the donor, beneficiary, and charity. Typically, identified assets are moved to a trust, they are then sold, and the trust distributes the assets according to the terms of the trust. There are two primary types of charitable trusts: The charitable lead trust and the charitable remainder trust. Both of these are split interest trusts, meaning a portion of the trust funds go to the charity and another part goes to either the donor or specified beneficiary(ies). The lead trust provides initial payments to a charity over a period of time then the trust beneficiaries receive the remaining principal at the end of the term. Whereas a charitable remainder trust is the opposite, the trust donor or beneficiary receives payments over a period of time (usually their lifetime) then the charity receives the remaining principal at the end of the term. Both types of trusts reduce the size of an estate, thereby reducing potential estate taxes. Setting aside high value assets that are not needed for retirement support can avoid capital gains tax while earning a charitable tax deduction. There are many moving parts to charitable trusts which require advanced planning and the assistance of an attorney.

Though we speak often about your investments, your retirement readiness and spending, it is important to remember that your financial plan also includes your charitable goals incorporated through your estate planning. () Our goal is to ensure that your goals are met as efficiently as possible. By preparing your financial plan and estate plan to include philanthropy we can help find a balance for your heirs and your favorite charities. Rather than focusing on once per year donations, consider longer term ideas, which can help inform a legacy as well as provide overall efficiency for wealth transfer. Talk to your advisor if you would like to explore some of the gifting options discussed here.

For additional information on Financial Planning, see our overview **here.**

Sincerely,
The Private Capital Management Team

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