CALIFORNIA WEALTH TRANSITIONS

Planning for Tax Year End
Charitable Gifting

As the year draws to a close, you and your accountant may decide that itemizing deductions can be the right strategy for you.

Here are a few options to consider:

A direct cash equivalent gift is the most common and widely used donation because of its simplicity. A taxpayer simply donates to the charity of their choice via check, wire transfer, or other cash position. Generally, you may deduct up to 50% of your adjusted gross income.

A direct gift of an illiquid asset includes publicly traded securities, real estate, restricted stock, equity compensation, privately held business interests, private equity fund interests, cryptocurrency, IPO stock, fine art, and collectibles that have appreciated and have been held for over a year. These provide a unique opportunity to leverage a holding that significantly impacts charitable gifting. This strategy can accomplish two key benefits. First, you may eliminate the capital gains tax incurred if assets were sold outright, which increases the available amount to the charity by 20%. Second, you can claim a fair market value charitable deduction for the tax year of the gift.

A Qualified Charitable Distribution (QDC) is the direct transfer of funds, up to $100,000 (maximum allowable by the IRS), from your IRA custodian to a qualified charity. This donation is reserved for those over 70 ½ years old and is often used by individuals who don't need the income. QDCs can have two main benefits. The amount transferred to charity can be counted toward satisfying your required minimum distribution for that year, and it's excluded from your taxable income.

A Donor Advised Fund (DAF) is a giving account within a sponsor organization that is generally eligible for an immediate tax deduction but can be invested and grow tax-free within the account. DAFs accept cash equivalents and most illiquid assets. Once the DAF is established, you can recommend grants to virtually any IRS-qualified public charity in subsequent years. This charitable gifting strategy is ideal during a year when a large income or liquidity event has occurred, and a taxpayer wants to maximize their charitable deduction in that year while extending their giving impact into the future.

Establishing a Private Foundation is the most complex strategy of these options. A private foundation is a legal entity in which the donor(s) or family members if appointed as board members, retain complete control over investments and grant decisions. Foundations like these have a 5% payout requirement (per the IRS) of the value of the investment assets annually in the form of grants or eligible administrative expenses. Foundations can also donate in ways that aren't available in other vehicles, such as scholarships and fellowships to individuals, program-related investments, direct charitable activities, and international grants.

Working with an advisor who understands your goals and needs, in tandem, with a tax professional, is key to deciding which strategy you should use for charitable gifting.

Jen Hollers, Head of Planning at Kestra Financial, has 25 years of experience in the financial industry from traditional and tech banking to wire houses. She comes most recently from national leadership of advisors who served HNW/ UHNW and 20 years as an advisor herself.