FOCUS ON BANKS & CREDIT UNIONS

Tax strategies that go hand-in-hand with charitable giving

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It's the most wonderful time of the year (cue the holiday music) – and as 2017 comes to an end, many people will expand their giving season by making charitable contributions.

American donors gave an estimated $390 billion to charity in 2016. This year, as we support the missions of our favorite charities, we can do so with potential financial and tax implications in mind.


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QCD: FOR THOSE 70½ AND OLDER

An often overlooked philanthropic strategy available to people 70½ or older, the qualified charitable distribution allows donors to transfer individual retirement account assets to a charity tax free while simultaneously satisfying their required minimum distribution.

Normally, distributions from an IRA result in a taxable event, increasing taxable income and inflating adjusted gross income. Those who take the standard deduction and donate directly to a charity receive no tax benefit from giving.

A QCD allows donors who itemize as well as those who take the standard deduction to reduce adjusted gross income while benefiting their favorite cause – a successful outcome for all.

A couple of rules that apply to QCDs:

- The QCD must transfer directly from the IRA to a qualified charity as defined by the Internal Revenue Service. The IRA owner cannot take possession of the distribution and subsequently donate it to a charity.
- Donor-advised funds, charitable gift annuities and private foundations cannot receive donations through a QCD.

Charitably inclined people whose IRA distributions would push them into the 15 percent federal capital gains bracket might benefit most from this strategy. By donating via QCD, they are able to exclude the charitable IRA distribution from taxable income and pay no federal capital gains tax.

OTHER WAYS TO GIVE

For donors of all ages, the simplest technique for charitable giving is to donate cash, for which tax filers who itemize can take a deduction.

Another giving strategy is to donate appreciated assets, such as stocks or real estate. Donors can deduct the current value of the asset without owing capital gains tax.

Many charities will facilitate the donation of a car, truck or boat – and it need not be in working order.

To streamline, charities use a third-party clearinghouse to pick up and haul the vehicle, eliminating the need for the donor to sell it. This creates a tax deduction while helping the charity.

Consult your tax adviser or financial adviser for special rules that apply to vehicle donations.

DONOR-ADVISED FUNDS

Another method for charitable giving is donating through a donor-advised fund, such as a local community foundation.

A donor-advised fund is a private fund administered by a third party for the purpose of overseeing and managing donations on behalf of individuals, families or organizations.

Through this fund, a taxpayer can receive an immediate tax benefit of up to $100,000 and later recommend grants from the fund over time.

Remember, though, that a donor-advised fund cannot receive donations through a qualified charitable distribution.

CHARITABLE TRUSTS

A number of irrevocable trusts exist to reduce income tax, give to charity and provide an income. Two of the most common are the charitable remainder annuity trust and the charitable remainder unitrust.

The annuity trust pays a set amount annually to noncharitable beneficiaries (for example, your children) for a fixed term or for the duration of the beneficiaries' lives.

The remainder unitrust differs slightly in that the trust pays the actual income or a set percentage of the current value of the trust's assets to the noncharitable beneficiaries.

Both trusts then distribute the remaining assets to a qualified charity.

TAX REFORM

It is possible that tax reform, if implemented, could affect charitable giving.

While the existing version of the Republican tax plan leaves the charitable deduction as is, the proposed doubling of the standard deduction will inevitably result in fewer taxpayers itemizing deductions – and it's possible that those taking the higher standard deduction might be less inclined to donate.

For now, at least, donors continue to receive significant tax benefits for their generosity.

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