Weekly Commentary

Season of Giving

Many clients support causes near their hearts while leveraging tax benefits through annual charitable giving. Navigating the most efficient strategies for charitable gifting is crucial in comprehensive financial and estate planning. However, the landscape has become more complex in recent years due to rapidly evolving provisions in the tax code.

Donating to a qualified charity can lower your federal tax bracket, depending on how much you give and your total income. While COVID-19 relief legislation allowing deductions of 100% of adjusted gross income (AGI) for cash donations expired in 2021, you can deduct up to 60% of AGI for cash gifts and up to 30% of AGI for non-cash contributions in 2023.

Is it best to give cash or other assets to charity? And from which accounts should the assets be transferred? The answers depend on a myriad of different factors and are best discussed with professional financial, legal, and tax advisors.[1] Here are a few strategies that Mill Creek has helped clients execute based on their specific circumstances:

- **Maximize your tax benefits by giving appreciated stock to a charity or donor-advised fund.** For example, let's say you are a Pennsylvania resident in the top federal marginal tax bracket for ordinary income and capital gains. In this scenario, you would like to gift $400,000 to charity. You hold AAPL shares worth $400,000 that you bought for $100,000 about five years ago. Rather than selling the stock and paying capital gains tax (26.87% including federal, net investment income, and state) of $80,610 on the $300,000 price appreciation to charity, you can donate $400,000 of AAPL to charity. Assuming the stock gift totals less than or equal to 30% of your AGI, you will have saved $80,610 while receiving the same charitable deduction on your tax return.

- **Optimize your deductions: Consider bundling several years of charitable donations into one, allowing you to itemize deductions in that year and take the standard deduction the following year.** For instance, let's say you're married and filing jointly, and you give $10,000 to charity each year and currently have $15,000 of other deductions. Since your total deductions of $25,000 are below the standard deduction amount of $25,900 in 2022, you can take the standard deduction. You would generate $53,600 in standard deductions over 2022 and 2023. However, a better strategy would be to bunch your $20,000 charitable donation into 2022. Your itemized deductions would be $35,000 in 2022 (instead of $25,900), and you could then take the $27,700 standard deduction in 2023. Therefore, you would have an additional $9,100 in tax deductions over the two years. Additionally, if you contributed to a donor-advised fund, you could recommend grants in 2022 or 2023 or invest the funds for future grants.

- **Leverage the benefits of your IRA if you're 70 ½ years or older. You can take $100,000 from an IRA and gift it directly to a public charity – this is known as a Qualified Charitable Distribution (QCD). The QCD does not increase AGI or generate any tax.** For example, let's say you're married, filing jointly, retired, and have little income. Your wife has an IRA; her required minimum distribution (RMD) is $100,000. Instead of taking the $100,000 RMD and adding

$100,000 of ordinary income for tax purposes, you and your wife can donate the distribution directly to an eligible charity. You will receive a dollar-for-dollar tax deduction in the year the donation is made and will likely avoid moving yourself into a higher tax bracket. The QCD may also help you qualify for other tax breaks (having a lower AGI can reduce the threshold for deducting medical expenses, which are only deductible to the extent they exceed 7.5% of AGI), reduce taxes on Social Security benefits, and help you avoid a high-income surcharge for Medicare Part B and Part D premiums.

- **Fund a charitable (lead or remainder, unitrust or annuity) trust.** These trusts are useful in situations where the donor may have a large, concentrated position in the portfolio and would like to generate a stream of income for family members or a charitable organization for the term of the trust while leaving the remaining property to either the family or the charitable organization when the term expires.

In summary, as clients blend philanthropy into financial planning, navigating charitable giving intricacies for tax benefits is important. Evolving tax codes add complexity, emphasizing the need for personalized strategies discussed with professional advisors. Approaches like donating appreciated stock, bundling contributions, using Qualified Charitable Distributions (QCDs) from IRAs, and funding charitable trusts provide effective means to elevate both charitable impact and financial planning. Check out our **Annual Planning Checklist** for more year-end financial planning considerations.

[1]The scenarios presented are intended solely for informational purposes and should not be interpreted as tax advice. We strongly recommend consulting with a qualified professional for advice tailored to your specific circumstances.

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