Generosity: Using Your Wealth Wisely to Do Good

If you engage in regular charitable gifting but are still writing checks out of your bank account, you may be leaving money on the table in the form of valuable tax savings.

Due to tax reform in 2017, the current **standard deduction**[1] on your tax filing creates a high hurdle for being able to realize tax benefits from charitable gifts of cash – because you need to have a sizable dollar amount of itemized deductions before you will see any marginal benefit from the gifting. This is especially true for married couples in retirement that do not have a mortgage.

You can improve your situation and take control of tax benefits by reviewing your planning options to create a charitable giving playbook.

"Lumping" Charitable Giving Using a Donor-Advised Fund ("DAF")

Unless you are giving a large amount each year, you are likely one of the ~90% of Americans who will just be taking the standard deduction – and thus unlikely getting tax benefits for those gifts. It may be time to consider giving a larger (or "lumped") amount every 3-5 years to push deductions over the standard deduction threshold, then just taking the standard (generous) deduction in the years in between those "lumped" gifts.

If you want your gift recipients to get a consistent amount each year, you might also benefit from a **Donor-Advised Fund ("DAF")**. This is like a charitable giving "checking account" that you can pre-fund (and get the deduction benefits that year), and then choose the timing for how you distribute that money in future years. You can also invest those funds in stocks and/or bonds while you are waiting to distribute funds.

Appreciated Assets

Whether you are funding a DAF or would like to give directly to a charity, one key strategy to consider is the use of appreciated assets. For example, gifting stock instead of cash to fund the DAF may give you the dual benefit of **getting the deduction benefit and bypassing capital gains tax on that asset.** You can also gift appreciated complex assets such as private investment holdings, real estate, restricted stock, cryptocurrencies and others.

The key is to plan early with a qualified advisor to see if the asset is eligible and start the appropriate steps ahead of time. As there are a few limitations, it is also good to have a solid tax advisor in your corner to help with these considerations.

[1] $25,100 for married filers and $12,500 for single filers, with additional amounts available for 65+ and blind taxpayers

Qualified Charitable Contributions ("QCDs")

If you are 70½ or older, there is another option for the charitable giving playbook: **Qualified Charitable Distributions.** This is a tax-free distribution from your IRA straight to the charity, and it even counts toward your RMD ("Required Minimum Distribution"). For example, if your RMD for the year is $50,000 and you give $10,000 via the QCD, your taxable distribution on your tax return is only $40,000. This is the equivalent of getting a $10,000 deduction from charitable giving for taxes – and you don't have to worry about the standard deduction threshold as the amount comes "off the top" of the earnings amount you need to report. It lowers taxable earnings for State returns as well.

As the QCD can help control AGI ("Adjusted Gross Income"), it can also be helpful when navigating the IRMAA ("Income Related Monthly Adjustment Amount") thresholds that affect the Medicare premiums deducted from your monthly Social Security check. If you are just over the tipping point of having a higher assessment, using a QCD strategy could lower your AGI to avoid this.

Planned Giving and Charitable Trusts

If you are concerned about your estate being taxed at your passing (the Estate Tax)[2], then you might want to leave a portion of your estate to charities (via will, trust or beneficiary designation). You can also create trusts, such as **Charitable Remainder Trusts** or **Charitable Lead Trusts,** where you can retain access to income or ultimate ownership of the asset while locking in tax benefits when it is most advantageous.

While these strategies are more complex, the tax savings can be meaningful. Please talk with your investment advisor, legal advisor and tax advisor to see what works best for you.

[2] For reference, the current estate tax exemption is $11,700,000 per spouse. This means that if your final estate value plus non-excluded lifetime giving is below that amount (or $23,400,000 per married couple), you would not likely be taxed. However, it is possible that we see this exemption amount decreased, or you could see the value of your estate get closer to that exemption level over your lifetime as assets grow. Work with your advisor to analyze your projected net worth to see if this is a risk for you.

In conclusion, it is important to know your options and talk with your advisor about your approach to charitable giving. If you are a client of NPF Investment Advisors, please reach out to your advisor to discuss these options. If you do not currently work with an advisor or would like to see if NPF can add value to your financial situation, please reach out to us any time.

NPF Investment Advisors
40 Pearl St. NW, Suite 300
Grand Rapids, MI 49503
T: 616.459.3421

npfinvest.com