Is It *Smart?*

Is it Smart? Charitable Gifting of Cash vs. Highly Appreciated Securities

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As we approach the end of the year and the holiday season, many people look at charitable giving as a way of sharing or giving back. People often think that the most direct and easiest way is to gift cash or write a check to your local church, community organization, university, or charitable cause. There are, however, a handful of more advantageous options with which to satisfy a charitable intent.

Especially for gifts of a more sizable amount (over $500, for example), we traditionally advise our clients to donate appreciated investment securities instead of cash. Donating these securities to a 501(c)(3) organization can ensure the maximum tax deduction on Schedule A (itemized deductions), as well as eliminate any potential capital gains tax incurred if those securities were sold within the taxpayer's account. *Note: Section 501(c)(3) is the portion of the US Internal Revenue Code that allows for federal tax exemption of non-profit organizations, specifically those that are considered public charities, private foundations, or private operating foundations.*

At Sullivan, Bruyette, Speros & Blayney, LLC (SBSB), we assist our clients in selecting the most optimal securities as candidates for charitable donation. For example, if you want to make a larger charitable gift to a non-profit organization, we look at taxable (non-retirement) accounts to determine the percentage appreciation within each stock or fund over the lifetime of the position. With the impressive stock market performance over the last five to 10 years, it is not uncommon to see securities with embedded appreciation of 200-300% or higher. As is commonplace with any decision that involves investment holdings, we also take anticipated future performance of the security, as well as the effect on asset allocation into account when examining gifting strategies.

The following is a list of strategies (in order of simplicity) for the gifting of investment securities. As always, we suggest speaking with your SBSB advisor to determine which approach or approaches may best meet your goals and objectives.

Outright Transfer to Charitable Organization

The simplest and most direct method of gifting highly-appreciated securities is to transfer holdings directly to an organization classified as a 501(c)(3) non-profit. To do so, the receiving organization simply needs to provide transfer instructions to their investment account. Your SBSB client service team would then work with you and the applicable custodian to help execute the transfer of the desired security from the optimal tax lot(s).

Qualified Charitable Distributions (QCD)

A qualified charitable distribution is an otherwise taxable distribution from an IRA (other than an ongoing SEP or SIMPLE IRA) owned by an individual who is age 70½ or over that is paid directly from the IRA to a qualified charity. A QCD is useful if you have an IRA and are subject to a required minimum distribution (RMD). For example, if your 2017 required minimum distribution was $10,000 and you made a $5,000 qualified charitable distribution for 2017, you would only have to withdraw another $5,000 to satisfy your 2017 required minimum distribution. Reducing taxable income also has the benefit of potentially lowering the Medicare income bands that determine annual premiums.

Establishing and/or Funding a Donor-advised Fund (DAF)

A donor-advised fund (DAF) account is a simple, tax-smart investment solution for charitable giving. It is a philanthropic vehicle established as a separate account which allows donors to make a charitable contribution, receive an immediate tax benefit, and subsequently recommend grants from the fund over time. Think of a donor-advised fund as setting up a personal charitable vehicle (that you can name whatever you wish) without the legal fees and ongoing administration associated with a private foundation. Clients can establish a DAF account at most major custodians like Charles Schwab and Fidelity and fund the account by making an irrevocable gift of highly-appreciated securities. The major advantage of a donor-advised fund is the ability to "front load" charitable giving by gifting substantially in years where your income is high to maximize your tax savings. After the irrevocable gift is made, the highly-appreciated security is liquidated (without tax consequences) within the DAF and can be reinvested in a diversified investment pool, if desired. Once the funds are available, the DAF account owner can recommend grants from the DAF as they wish to any charity with a 501(c)(3) tax status.

Charitable Remainder Trust (CRT) or Charitable Lead Trust (CLT)

We typically only advise clients with a very large charitable intent to utilize Charitable Remainder Trusts (CRT) or Charitable Lead Trusts (CLT) due to the time and complexity involved in the establishment and ongoing administration of these vehicles. With a CRT, the donor makes a substantial irrevocable gift to the trust and subsequently receives lifetime income (based on a calculation) from that trust. When the donor passes away, the amount remaining in the CRT goes entirely to a pre-determined charitable organization. This could be especially advantageous for clients with sizeable estates that could potentially be subject to estate tax at death. A Charitable Lead Trust is the opposite of a Charitable Remainder Trust. With a CLT, the donor makes a substantial irrevocable gift to the trust and a specified charitable or non-profit entity receives income (based on a calculation) from that trust over the lifetime of the donor. At the death of the donor, the remainder of the trust corpus is left to a non-charitable entity, such as a family member.

Please note that this advice is based on current tax laws and may be simplified for illustration purposes. Please contact an SBSB advisor if you have any questions or would like to learn more about these types of gifting strategies. At SBSB, we strive to help our clients make smart financial decisions.