Charitable Giving Strategies and Tax Benefits

Listed below are 11 charitable planned giving tax strategies for your consideration. The primary source for this list is Schwab.com. Please consult with your tax and/or legal advisors before acting on any of these strategies. If you would like to discuss charitable giving strategies with one of Boysville, please contact us and we will arrange a brief discussion with our development director or one of our board members.

1. Donate appreciated non-cash assets instead of cash.

You might be familiar with this concept, but many people do not realize that it's more tax-efficient to give appreciated assets instead of cash.

Donating appreciated publicly traded securities, real estate, and other non-cash assets held more than one year means donors generally can eliminate the capital gains tax they would otherwise incur if they sold the assets and donated the sale proceeds.

Donors who itemize deductions when filing their tax returns may also claim a charitable deduction for the fair market value of the assets. Eliminating the capital gains tax can increase the amount available for your favorite charities by up to 20% and increase the deduction amount.

Tax deduction considerations for charitable giving

Donations are deductible for people who itemize when filing their income tax returns. Overall deductions for donations to public charities, including donor-advised funds, are generally limited to 50% of adjusted gross income (AGI). The limit increases to 60% of AGI for cash gifts, while the limit on donating appreciated non-cash assets held more than one year is 30% of AGI. Contribution amounts in excess of these deduction limits may be carried over up to five subsequent tax years.

People who itemize rather than take the standard deduction typically do so because the total of their itemized deductions exceeds their standard deduction amount. Inflation-based adjustments pushed standard deduction amounts for 2023 to new highs: single filers may claim a $13,850 standard deduction, while married couples filing jointly can claim a $27,700 standard deduction.

2. Combine tax-loss harvesting with a cash gift.

This is a strategy to keep in mind if you have publicly traded securities in your portfolio that have declined in price to below their cost basis. You can sell those securities at a loss and use tax-loss harvesting to offset capital gains and/or up to $3,000 of ordinary taxable income. Donors who itemize their deductions can then claim a charitable deduction for donating cash from the sale proceeds. If capital losses are greater than capital gains and after reducing $3,000 of ordinary income, the net remaining loss may be carried forward to offset capital gains or ordinary income in future years.

3. Contribute restricted stock.

Executives may also own appreciated shares of restricted stock, which cannot be transferred or sold to the public—including by charities—until certain legal and/or regulatory conditions have been met. Once the company's general counsel removes all restrictions, the stock may be donated to and sold by a charity. Donation of restricted stock allows you to generally eliminate the long-term capital gains tax on the appreciation and claim a charitable deduction if you itemize.

4. Bunch multiple years of charitable contributions in tax year 2023.

You may find that the total of your itemized deductions will be slightly below the standard deduction amount (see "Tax deduction considerations" below). In that circumstance, it could be beneficial to combine or "bunch" 2 or more years of tax contributions into one tax year and itemize on your current year tax return, and take the standard deduction on the next year or two tax returns.

This bunching strategy, using both the standard deduction and itemized deductions, could produce a larger two-year deduction than two separate years of standard deductions. Bunching three or more years of contributions together may further increase your tax savings.

5. Combine charitable giving with investment portfolio rebalancing.

Understand that each time an appreciated position is sold in one of your taxable accounts, a taxable event occurs, but you can donate shares to eliminate the taxes you would owe.

You can use a part-gift, part-sale strategy to potentially reduce the tax impact of rebalancing. You can accomplish this by claiming an itemized charitable deduction for donating long-term appreciated assets in an amount that offsets the capital gains tax on selling appreciated assets.

6. Offset the tax liability on converting a retirement account to a Roth IRA.

If you have tax-deferred retirement accounts, such as traditional IRAs, you may be able to use an itemized charitable deduction to help offset the tax liability on the amount converted to a Roth IRA. The primary benefits of a Roth IRA are potential tax-free growth, tax-free withdrawals (if holding period and age requirements are met), no annual required minimum distribution (RMD), and elimination of tax liability for beneficiaries (if account assets are passed to heirs).

7. Offset the tax liability on a retirement account withdrawal.

If you have tax-deferred retirement accounts you can also use charitable deductions, if you itemize, to help offset the tax liability on the amount you withdraw, including an RMD. This strategy may be used by individuals over age 59½ (to avoid an early withdrawal penalty). A withdrawal offers the additional tax benefits of potentially reducing your taxable estate and reducing tax liability for account beneficiaries.

8. Satisfy an IRA RMD through a non-taxable qualified charitable distribution (QCD).

Individuals age 70½ and older can direct QCDs of up to $100,000 per year from their traditional IRAs to operating charities (excluding donor-advised funds) and reduce their taxable income.[3] Starting in 2023, donors can also direct a one-time, $50,000 QCD to a charitable remainder trust or charitable gift annuity as part of recently passed SECURE Act 2.0 legislation.

A QCD can satisfy all or part of a donor's annual RMD, is not taxable income for the donor, and does not qualify for a charitable deduction. Note that married couples who submit joint tax returns each qualify for an annual QCD of up to $100,000, for a potential total of $200,000, and the SECURE Act 2.0 mandates annual inflation-based adjustments of the QCD limit starting in 2024.

9. Leave a legacy by naming a charity as a beneficiary of IRA assets.

A unique feature of traditional IRAs is that heirs pay income taxes on the inherited assets at their own income tax rate at the time of withdrawal. This is why public charities can be ideal beneficiaries of IRA assets. Public charities do not pay tax on IRA income, which means every penny of the donation can be directed to support your charitable goals beyond your lifetime.

What's more, you can work with a tax professional or an estate planning attorney and leverage IRA assets after your lifetime to fund a charitable remainder trust, which will combine a gift to charity with income to heirs.

10. Establish a charitable trust.

If you are interested in a source of income for yourself or family members, a charitable remainder trust (CRT) on its own or coupled with a donor-advised fund account may be a great option. A charitable remainder trust is an irrevocable giving vehicle funded with a gift of cash or non-cash assets. Income beneficiaries receive payments from the trust for a term of years or life and Boysville receives the remaining assets at the end of the term. You may claim a charitable deduction, if you itemize, in the year the trust is funded, and the deduction amount is typically based on the present value of the assets that will eventually go to the named charity.

A charitable lead trust is the reverse of a charitable remainder trust, in that Boysville first receives an income stream from the trust for a term of years. The irrevocable giving vehicle is funded with a gift of cash or non-cash assets. Benefits to you for funding the trust will vary depending on the trust structure. After the income stream period ends, the trust's remaining assets are distributed to an individual or multiple people.

11. Use a donor-advised fund account as a component of any of the 10 strategies above.

A donor-advised fund is a public charity, and contributions of cash and non-cash assets are eligible for charitable deductions, if you itemize. Contributed assets may be invested for potential tax-free growth, you can recommend grants from your account to Boysville at any time. Several well-known custodians have Charitable departments dedicated to Donor Advised funds such as Charles Schwab, Fidelity, Merrill Lynch, Morgan Stanley, etc.