CHARITABLE GIVING

Aligning your values with your financial goals

Nov. 2024

As we approach the holiday season and end of year tax planning season, it is a great time to think about charity and helping others. Our goal is to help you get the most financially out of your kindness. Charitable giving is about more than just writing a check—it's an opportunity to align your financial resources with your personal values and make a lasting impact on the causes you care about. Whether driven by a desire to give back to your community, support global initiatives, or create a legacy of philanthropy, there are many ways to make your generosity work harder. By incorporating strategic financial tools like donating appreciated assets or using Qualified Charitable Distributions (QCDs) from your IRA, you can significantly increase both the reach of your giving and the tax savings you'll receive. In this month’s blog, we'll explore how these strategies work, offering a closer look at how thoughtful, tax-smart philanthropy can enhance your overall financial plan and legacy.

1. APPRECIATED ASSETS AND TAX BENEFITS

When investors donate appreciated assets such as stocks, bonds, mutual funds, or real estate held for more than one year to a qualified charitable organization, they can take advantage of significant tax benefits:

- **Avoiding Capital Gains Tax:** If the investor were to sell the appreciated asset, they would pay capital gains tax on the difference between the sale price and the original purchase price (basis). Instead, by donating the asset directly, the investor avoids this tax altogether. The charity will not be subject to taxes on the donation either.
- **Full Fair Market Value Deduction:** The donor can typically deduct the full fair market value of the asset as a charitable contribution (subject to IRS limits).

Example:
An investor owns shares of stock purchased 10 years ago for $10,000, and the stock is now worth $50,000. If the investor were to sell the stock, they would owe capital gains tax on the $40,000 of appreciation. Assuming a long-term capital gains tax rate of 20%, they would owe $8,000 in taxes ($40,000 x 20%). If they instead donate the stock directly to a charity:

- **Avoiding Capital Gains Tax:** The $8,000 capital gains tax is completely avoided.
- **Charitable Deduction:** The investor can deduct the full $50,000 (the current market value) as a charitable contribution, subject to a limit of 30% of adjusted gross income (AGI).

Tax Comparison:

Action	Tax Impact	Charitable Deduction
Sell stock, then donate cash	Pay $8,000 in Capital Gains Tax	Net Effective Donation = $42,000
Donate stock directly	No Capital Gains Tax	Net Effective Donation = $50,000

2. QUALIFIED CHARITABLE CONTRIBUTIONS (QCDs)

QCDs allow individuals aged 70½ or older to donate directly from their **traditional IRA** to a qualified charity without having to include the amount in their taxable income. This strategy is particularly advantageous for retirees who are subject to Required Minimum Distributions (RMDs).

- **RMD Satisfied:** The QCD can count toward the RMD requirement.
- **No Income Tax:** Unlike regular IRA withdrawals, QCDs are excluded from taxable income, potentially keeping the donor in a lower tax bracket and reducing income-based taxes (e.g., Medicare premiums or taxes on Social Security).

Example:
A retiree is 72 years old and must take an RMD of $20,000 from their IRA. Instead of taking the $20,000 as income, they decide to make a QCD of $15,000 directly to a charity:

- **No Tax on QCD:** $15,000 QCD is excluded from income. No taxes are owed on the distribution.
- **RMD Reduction:** The QCD satisfies $15,000 of the $20,000 RMD requirement, so the investor only has to take $5,000 in taxable income, reducing their overall taxable income for the year.

Tax Comparison:

Action	Tax Impact	RMD Satisfied
Take full RMD, then donate	$20,000 added to taxable income, potential deduction if itemizing,	RMD Satisfied, but increases taxable income
QCD of $15,000	Only $5,000 of taxable income (remainder of RMD)	$15,000 of RMD satisfied tax-free

Summary of Differences:

- **Appreciated Assets:** This method works well for investors with large portfolios who wish to maximize charitable impact and avoid capital gains.
- **Qualified Charitable Distributions:** This strategy is ideal for retirees managing their taxable income and fulfilling RMD obligations without incurring additional income taxes.

Both strategies offer meaningful tax savings, but they apply to different financial situations. An optimal strategy might combine both, with appreciated assets being donated during higher-income years, and QCDs used after retirement for income and tax management.

• • •

As you explore ways to optimize your charitable giving and align it with your financial goals, a Donor-Advised Fund (DAF) can be a powerful tool. A DAF allows you to make tax-deductible contributions now, invest those funds for growth, and support your favorite causes over time—all while simplifying the giving process. Whether you're interested in maximizing tax efficiency, creating a lasting legacy, or simply making a greater impact, we can help you explore how a DAF fits into your overall financial plan. Reach out to us today for a planning session to explore how a Donor-Advised Fund and other strategies can help you achieve your philanthropic goals and maximize the impact on both your giving and tax situation.

Disclosures

Kathryn Palao and Joseph Passaniti are Investment Advisor Representatives offering securities and advisory services through Cetera Advisor Networks LLC, member FINRA/SIPC, a broker/dealer and Registered Investment Advisor. Cetera is under separate ownership from any other named entity. Tax planning services offered through Hudson Tax Services, LLC.

The views stated in this piece are not necessarily the opinion of Cetera Advisor Networks LLC and should not be construed directly or indirectly as an offer to buy or sell any securities. Due to volatility within the markets mentioned, opinions are subject to change without notice. Information is based on sources believed to be reliable; however, their accuracy or completeness cannot be guaranteed. Past performance does not guarantee future results. All investing involves risk, including the possible loss of principal. There is no assurance that any investment strategy will be successful. Investors cannot invest directly in indexes. The performance of any index is not indicative of the performance of any investment and does not consider the effects of inflation and the fees and expenses associated with investing. The S&P 500 is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Cetera does not offer direct investments in gold/silver or other commodities. Commodities are volatile investments and may not be suitable for all investors.

A diversified portfolio does not assure a profit or protect against loss in a declining market.

For a comprehensive review of your personal situation, always consult your legal advisor. Neither Cetera Advisor Networks, LLC nor any of its representatives may give legal advice.

Rebalancing may be a taxable event. Before you take any specific action be sure to consult with your tax professional.