Rochester Wealth Strategies

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Tax-Efficient Philanthropy

By Dominic Garcia

Before determining whether a charitable gift could benefit you from a tax perspective, it is important to keep in mind that some strategies may only value those who itemize. There are also specific AGI limits based on the type of charitable contribution you are making.

One highly effective strategy for achieving tax savings and charitable impact is by donating appreciated non-cash assets, such as equities or real estate. This approach is significantly better than simply donating cash as the charity will be able to capture 100% of the appreciated stock's value. In turn, this will optimize your charitable contribution deduction and allow you to avoid long-term capital gains tax. Let us also say that you are rebalancing your investment portfolio that will incur a large capital gain, you may consider looking at which lots will create the largest capital gain and specify that those shares be donated.

With over 90% of the population claiming the standard deduction, it may be worth consolidating multiple years of charitable contributions into one year; potentially allowing you to itemize with a larger deduction in one year and receive the standard deduction the following year.

A popular strategy for those required to take minimum distributions (RMDs) is to make a Qualified Charitable Distribution (QCD) from their IRA. You could donate a portion of the distribution as opposed to paying income tax on the full amount. For example, if you donate $60 weekly to your church, you could instead make a one-time $3,000 QCD. Your tax savings could be upwards of $1,000 as QCDs are deductible even if you file a standard deduction. Note that the limit on QCDs is $100,000 per year.

Roth conversions have been a big topic of conversation in recent years. Charitable contributions may be one consideration to offset the tax liability from a Roth conversion.

With the coordinated input of your financial advisor, CPA, and attorney, a Charitable Remainder Trust (CRT) or Charitable Lead Trust (CLT) may be beneficial. A CRT provides a source of income to yourself or loved one during life, with the remainder going to charity. With a CLT, the concept is reversed. The charity receives annual payments for a set period of time; afterwards, the balance passes to the designated beneficiaries.

With many of the strategies listed above, a donor-advised fund is an ideal vehicle to utilize. It could be the beneficiary of your charitable trust, or the recipient of your appreciated stock. A donor-advised fund offers you the flexibility to obtain deductions in the current year, while allowing you multiple years to choose which charity to donate to and how much of a donation to make. Moreover, it is an exceptional tool if you have recently come into money or expect a windfall and want to reduce your current year tax liability.

In the end, the goal is to help support the causes you believe in; meanwhile, reducing your taxable income, offsetting capital gains, lessening your taxable estate, and limiting the tax liability of your IRA beneficiaries.

Dominic Garcia is President of Rochester Wealth Strategies LLC, an Independent Registered Investment Adviser located in Downtown Rochester. RWS is a Fiduciary and Fee-Only financial advisory firm.