PHILANTHROPY AND TAX REDUCTION

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A charitable giving strategy can serve the dual purpose of maximizing your philanthropic impact and minimizing your tax bills. Some charitable giving vehicles are available during your lifetime, while others are available at death if incorporated into an estate plan.

Outright cash gifts to charity during your lifetime

This is the most straightforward method of making a charitable donation. Aside from generally not requiring legal or administrative costs, the benefits of outright cash distributions include the fact that the recipient charitable organization has immediate access to the funds and that you may actually have the opportunity to observe and enjoy the impact of your gift.

The downside to outright lifetime charitable gifts is that recent changes in federal law removed much of the tax incentive that existed for many individuals previously. Currently, in order to be eligible for an income tax deduction for your cash donation, you need to itemize your taxes. Due to the recent substantial increase in the standardized deduction, few people itemize.

Lifetime tax-free distributions to charity from investments

Distributions from IRAs are generally includable in income tax in the year of the distribution. However, there is a significant exception to this rule: if you are age 70 ½ or older, you are permitted to contribute up to $100,000 from your IRA directly to a charity without any tax implications. What's more, if you're over 72 years of age these distributions may count toward your required minimum distribution for the year.

Additionally, a method for using a non-retirement investment portfolio for charitable giving is to contribute appreciated property such as stocks or other securities to a charity. Unlike liquidating or selling appreciated property, contributing appreciated property to charity may avoid triggering a capital gains tax. This capital gains tax benefit is in addition to any charitable deduction income tax benefit for which you may also be eligible. For example, say you donate $200,000 of appreciated stock from your non-retirement brokerage account, and that stock has a capital gain of $150,000. By gifting this stock to charity, you receive an immediate charitable deduction income tax benefit for the full $200,000 gift and avoid paying capital gains tax on the $150,000 in growth. Together, these tax benefits can be substantial.

Outright gifts to charity at death

If you are concerned about cash flow or relinquishing assets during your life, you can delay making charitable donations until after your death by incorporating charitable giving into your estate plan. Doing so has an arguably greater tax benefit than donating during life: whereas the federal income tax deduction for charitable giving is subject to limitations, the federal estate tax deduction is unlimited. Moreover, since Massachusetts uses the federal estate tax to calculate its estate tax, this also creates a state estate tax savings opportunity.

Designating a charity as the beneficiary of a retirement account, such as an IRA, 401(k) or 403(b) is another charitable giving opportunity that is triggered at death. Gifting a retirement account to charity avoids having to pay the deferred income tax on such an account. For example, say you give a $1 million IRA to family members. Those family members, other than a spouse and certain limited individuals must withdraw all of that $1 million within 10 years. All withdrawals are treated as ordinary income and taxed accordingly, but not a charitable beneficiary which pays no tax.

Advanced charitable giving
A more sophisticated way to give to charity during life or at death is to create charitable trusts. Charitable trusts can be structured in many ways that benefit both the donor (or designated beneficiary) and charity. Usually, this estate planning strategy is for individuals who have very large estates with intent to give to a specific charity or charities.

For those who have a more generalized philanthropic impulse, giving to a community foundation or donor-advised fund allows a donor to make a contribution during life or at death that in turn is distributed to various charities based upon the donor's guidance. Community foundations offer opportunities to focus your charitable giving to local initiatives or a specific geographical area, whereas donor-advised funds may make contributions on your behalf to charities with a national or international focus.

For individuals and families with substantial assets and an interest in playing a more active role in overseeing fundraising and grantmaking, establishing a private foundation may be a preferred charitable giving vehicle. Although private foundations are heavily regulated, and require ongoing legal maintenance, they offer an opportunity for a family to establish an ongoing legacy.

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For more information, please visit OldColonyLaw.com or contact Ben Palkowski by at ben@OldColonyLaw.com or 413-387-0080.