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Charitable Gifting: Beyond the Checkbook

Charities' greatest fundraising successes often arise from annual giving events, as generous donors open their checkbooks to purchase tickets, auction items and make additional donations. These cash gifts provide great immediate benefits to charities; however, they provide the least tax advantage to donors. Savvy taxpayers retain a variety of options to leverage their charitable gift dollars while also maximizing their tax savings in the process.

Here are a few ideas taxpayers can consider before making that next checkbook gift:

Charitable Rollover

The Pension Protection Act of 2006 originally allowed certain taxpayers to roll over money from an IRA to a qualified public charity. Congress extended this provision several times, and since has made it permanent. This technique is known as the charitable rollover.

The charitable rollover allows taxpayers over age 70½ to shift as much as $100,000 of their required minimum distributions (RMDs) to qualified public charities, which include community foundations but do not include donor advised funds or supporting organizations.

The charitable rollover operates "above the line" by diverting otherwise taxable income directly to a qualified charity. By doing so, the charitable rollover strategy provides taxpayers with a greater benefit as compared to the process individuals often follow: (1) taking an RMD, (2) recognizing the income, (3) making a charitable contribution, and then (4) taking a charitable deduction. That is, the charitable rollover benefits a taxpayer at the rate of 100 cents on every dollar; whereas, the multiple step approach outlined above benefits a taxpayer only up to their marginal tax rate (if not otherwise subject to deduction limits).

When would someone consider a charitable rollover? When a taxpayer has sufficient retirement income from other sources, and RMDs place the taxpayer in a higher tax bracket. In these cases, the charitable rollover allows the taxpayer to shift income (and resulting tax) away. When a taxpayer has a significant IRA, the charitable rollover combined with a Roth conversion also can help optimize income taxes and wealth preservation over time.

Highly Appreciated Public Securities

Investors often buy and hold "blue chip" stocks when younger and then seek diversification and lower investment risk during retirement. Investors then face the tough choice of paying capital gains taxes due as they sell the highly appreciated stocks.

Donors can benefit greatly in these situations by funding charitable gifts with stock. Instead of using cash (and reducing spending capital), a donor can simply gift highly appreciated stock to the charity. The fair market value of the stock represents the gift value and resulting charitable deduction. The donor would avoid the capital gain tax when funding a charitable gift this way, and the charity could sell the stock tax-free to generate the proceeds for its use.

Even donors who have diversified their investments benefit when using stock to fund charitable gifts. As donors readjust their investment allocations, they could benefit from funding charitable gifts with appreciated stocks instead of simply selling their "losers" to offset their "winners."

For donors who are trying to solve the investment allocation and tax problem but who have not yet picked the charities they will benefit, a donor advised fund provides a solution. For more information on planning with donor advised funds, see *"The Apples and Oranges of Charitable Giving"* available on the Calamos Wealth Management website.

Other Appreciated Property

Donors can give appreciated real estate or other personal property to charity, provided that the charity would accept the gift. The deduction likewise could equal the fair market value of the donated property. Donors and charities need to comply with any qualified appraisal and acknowledgement rules relating to such gifts.

Bequests

Donors often make significant charitable gifts as part of their estate plans. These "planned gifts" provide great benefits to charities; however, donors may lose personal recognition or the chance to appreciate their charitable efforts during their lifetime.

Some donors share intended, planned gifts with charities during their lifetime to work out details and to set expectations. Planned gifts often provide more of an estate tax benefit than an income tax benefit unless funded with retirement accounts.

Beneficiary Designations

Donors who purchased life insurance over the years may have remaining cash value without the underlying insurance need. These donors could name favorite charities as beneficiaries of the policy to fund a planned gift.

Other donors may have large retirement accounts and understand how much income taxes erode the benefits of these accounts over time as they pass along to the next generation. These donors may choose to fund the family inheritance with other assets including supplemental "wealth replacement" life insurance. These donors then could name favorite charities as beneficiaries of the retirement account to fund a planned gift. Since a charity would not pay income tax on the retirement account benefit, it provides a great asset choice when making planned gifts.

Conclusion

The ideas highlighted above are summarized in the following chart. Taxpayers who collaborate with their tax and financial advisors enjoy the advantages associated with strategic charitable giving. Public charities reap the benefits of these gifts financially, and donors share in those same benefits on their income tax returns.

Comparing Charitable Gift Assets

DONATION	PROS	CONS
Cash	• Highly Liquid • Easily Transferred	• Least Tax Advantage • Spending Money Lost
Securities (Publicly Traded)	• Deduction Equals Fair Market Value • Capital Gains Avoidance • Easily Transferred	• Need Appreciated Stock to Reap Greatest Tax Advantage
IRA Rollover	• Reduces Taxable Income • Meets RMD requirement	• No Charitable Deduction
Real Estate/Tangible Property	• Fair Market Value Deduction Available • No Sale Needed • Relatively Easy Transfer	• Qualified Appraisal Needed • Charity Must Assume Control
Beneficiary Designations Life Insurance/IRA Benefits	• Complete Tax Avoidance	• Gift Timing (Death)
Bequest	• Complete Tax Avoidance	• Fruits of Gift Lost

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