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Charitable Planning

Accelerated Charitable Giving

Planning Tip

The charitable giving landscape changed substantially in 2018, as the Tax Cut and Jobs Act nearly doubled the standard deduction but capped the state and local tax (SALT) deduction at $10,000 and eliminated "miscellaneous two percent itemized deductions." Due to the new changes, taxpayers should evaluate if a portion of charitable giving would not produce a tax benefit.

Taxpayers might benefit from **accelerating ("bunching") charitable gifts** to maximize itemized deductions in a single tax year while taking the standard deduction in other years. This planning strategy can be particularly effective for charitably-inclined taxpayers without deductible medical expenses (> 7.5 percent of Adjusted Gross Income) and with no/minimal mortgage interest.

Scenario #1: Married Filing Jointly, Level Annual Charitable Giving

	2022–2025 (Each Year)	2022–2025 TOTAL
Mortgage Interest	$9,000	**$36,000**
State & Local Tax (SALT)	$10,000	**$40,000**
Charitable Gifts	$30,000	**$120,000**
Itemized Deduction Total	**$49,000**	**$196,000**
Greater of: **Itemized Deductions *or* $25,900 Standard Deduction**	**$49,000**	$196,000

Scenario #2: Married Filing Jointly, Accelerated Charitable Giving

	2022	2023–2025 (Each Year)	2022–2025 TOTAL
Mortgage Interest	$9,000	$9,000	**$36,000**
State & Local Tax (SALT)	$10,000	$10,000	**$40,000**
Charitable Gifts	$120,000	$0	**$120,000**
Itemized Deduction Total	**$139,000**	**$19,000**	**$196,000**
Greater of: **Itemized Deductions *or* $25,900 Standard Deduction**	**$139,000**	**$25,900**	$216,700

In the example above, the couple's itemized deductions before charitable gifts total $19,000 (mortgage interest + SALT). Since the married filing jointly (MFJ) standard deduction is $25,900, the first $6,900 of charitables will not produce a tax benefit.

In Scenario #2, the couple accelerates charitable giving into a single year (2022) to maximize itemized deductions and takes the standard deduction in subsequent years (2023-2025). **The composition of itemized deductions is the *same* under both scenarios, yet Scenario #2 produces a greater cumulative tax deduction of $20,700 over the four-year period.**

This planning consideration is subject to change, as the current $10,000 cap for the state and local tax ('SALT') deduction is under consideration in Congress. A proposal passed by the House last November would call for increasing the SALT cap to $80,000 for years 2021-2030. It remains uncertain whether the existing $10,000 limit will remain in place or if it might be increased in subsequent legislation.

Example is for illustrative purposes only.

Charitable Giving Vehicles

Donor-Advised Funds vs. Private Foundations

There are numerous considerations to evaluate whether a donor-advised fund or a private foundation (or a combination) might be an effective charitable giving vehicle. The table below provides an abbreviated comparison.

	Donor-Advised Fund	Private Foundation
Start-up Time	Immediate	May take several weeks or months
Start-up Costs	None	Legal and other fees
Initial Contribution/ Minimum	Varies by sponsor, but often as low as $5,000 - $10,000	No minimum, though due to start-up and ongoing administrative expenses, a larger starting balance (several million dollars) is generally advisable
Minimum Grant to Charity	Varies by sponsor, but often as low as $50-$100	No minimum
Ability to Give Anonymously	Yes, donor can choose whether to give publicly or anonymously	No, IRS Form 990 must report gifts
Ongoing Administrative Expenses	Varies by sponsor, but typically starts approximately 0.60 percent	Various tax & other expenses
Underlying Investment Expenses	Varies by sponsor, with some investment options as low as 0.03 percent	Varies based on investments chosen & advisor
Tax Deduction for Gifts	Up to 60 percent of AGI for cash gifts Up to 30 percent of AGI for long-term securities	Up to 30 percent of AGI for cash gifts Up to 20 percent of AGI for long-term securities
Annual Distribution Requirement	None	IRS requires minimum 5 percent annual distribution based on prior year's net average assets
Tax Reporting	Handled by the sponsor; donors do not report charitable grant activity	Responsible for tax filings and must annually file IRS Form 990
Excise Taxes	None	1.39 percent of net investment income

Additional Charitable Giving Strategies

	Charitable Lead Trusts (CLT)	Charitable Remainder Trust (CRT)	Charitable Gift Annuity (CGA)
What is it?	An irrevocable trust established for charitable purposes. During the trust term, income passes to the designated charity/charities. At the end of the trust term, the remaining assets transfer back to the donor or to specified beneficiaries.	An irrevocable trust established for charitable purposes. During the trust term, income passes to the donor or designated beneficiary (per the IRS, the annual annuity must be at least 5 percent but no more than 50 percent of the trust's assets). At the end of the trust term, the remaining assets transfer to the designated charity/charities.	A lifelong contract between a nonprofit and a donor or couple. The donor makes an irrevocable gift to 501(c)(3) qualified public charity and, in return, the charity agrees to pay the annuitant(s) lifetime income. The maximum number of annuitants is two. Not all charities provide charitable gift annuities.
Benefits	Under a ***non-grantor CLT***, depending on the amount of trust growth, remainder assets may pass to beneficiaries free of estate or gift tax. Under a ***grantor CLT***, the grantor receives an immediate tax deduction for the present value of the future payments to be made to charity.	Donor receives a partial income tax deduction depending on trust type and term, projected income payments, and IRS interest rates. Can convert appreciated assets into current income, without triggering capital gains taxes.	Donor receives a charitable tax deduction for the value of the original gift, less the present value of future annuity payments. Potential for a portion of annuity payments to be treated as tax-free income
Taxation	Under a non-grantor CLT, the trust is considered the owner and pays tax on undistributed net income; the trust can claim an unlimited charitable deduction for charitable distributions. Under a grantor CLT, the grantor pays the tax on trust income.	The CRT's investment income is exempt from tax, which provides an opportunity to sell appreciated securities without generating capital gains tax. However, the named income beneficiary will pay income tax on the income stream received.	For gifts of cash, annuity payments will be treated as a split among ordinary income and tax-free income. For gifts of appreciated securities, annuity payments will be treated as a split among ordinary income, capital gains, and tax-free income.
Who might benefit from this strategy?	Charitably inclined individuals who want to provide current support to charity but also want any remaining assets to pass to beneficiaries.	Charitably inclined individuals who want an immediate charitable tax deduction and who also have a need/desire for current income.	Charitably inclined individuals who want an immediate charitable tax deduction and current income but may not have sufficient assets to fund a CRT.

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