Smart Giving: Assets & Tax Advantages

1. Think Beyond Cash

When we donate to charities, most of us immediately tend to reach for our wallet, giving gifts in cash, check or credit cards. However, for those donors who have non-retirement taxable investment accounts, gifting appreciated securities may allow for an even greater tax benefit. A gift of appreciated securities allows the donor to make a tax deductible donation, while at the same time avoiding imbedded capital gains tax that may have been due.

These include:

Publicly traded appreciated securities you have owned for more than a year:

- stocks
- bonds
- mutual fund shares
- life insurance

Complex, non-publicly traded appreciated assets:

- private or restricted company stock
- shares of a privately owned business
- real estate

Donating long-term appreciated assets is a smart charitable planning strategy because not only are you generally entitled to the full fair market value (FMV) tax deduction at the time of your gift, donors may be able to eliminate imbedded capital gains taxes when these assets are given directly to charities. Through these combined tax saving opportunities, you may be able to give more to charity compared to giving cash, writing a check or selling the asset and donating the cash proceeds.

With the new tax plan that was introduced for 2018, it is estimated that as many as 92% of all taxpayers will take the standard deduction versus itemizing their deductions. For those taxpayers who will take the standard deduction, gifting appreciated securities may still be more advantageous than cash gifts due to the fact that the donor can still enjoy the larger

standard deduction, while at the same time avoiding the imbedded capital gains.

2. Consider a Qualified Charitable Distribution

An additional opportunity to consider from an income tax perspective is the donation of a qualified charitable distribution (QCD) from an IRA for people better than 70 ½. A QCD is contributed directly to an operating charity. Unlike traditional required minimum distributions (RMDs) from IRAs, QCDs are not subject to ordinary federal income taxes. QCDs are limited to the lesser of your RMD or $100,000 per taxpayer, per year.

This strategy would also be an additional benefit for those tax filers who will elect to take the standard deduction. Using this strategy will allow those taxpayers to enjoy the larger standard deduction as well as reduce their taxable income by the amount of their QCD.

It's worth noting, there are some charitable vehicles that are not eligible for QCDs including donor-advised funds (DAF) and private foundations. However, talk with your advisor about more advanced strategies that may allow you to take advantage of both QCDs and contributions to DAFs or private foundations.

3. Tax Saving Strategy for Leaving Money to Heirs & Charity

If you are a person who would like to leave a legacy to your favorite charity in addition to your family members, consider the tax ramifications of which accounts are left to whom.

Non-IRA taxable accounts receive what is called a "step up in basis" upon the death of the owner. That means is that the cost basis of the account is not determined by the amount of money you paid for it originally; but rather, what it is worth on the date of your death. When your heir inherits the account, their basis is now the value as of the date of death. So if sold immediately, there would be no tax due whatsoever.

Alternatively, if your heir were to inherit assets from your IRA (*i.e.* a non-taxable account), as they begin to remove the money from the IRA wrapper, whatever is withdrawn from that account is subject to ordinary income tax. Generally, it is more beneficial to heirs to receive assets from a non-IRA

taxable account, because they will not owe taxes on the money if it is sold at the time of death.

The opposite is true for gifts left to charities from your IRA. The charity gets to avoid the income tax that would have been due and can enjoy the full value
of your contribution. So when thinking about your estate plan, it may make sense to consider leaving donations to charities from your retirement accounts, while leaving non-retirement taxable accounts to your human heirs. This can be accomplished simply by naming the charity as a beneficiary of your IRA.

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December 2018