Three Financially-Savvy Ways to Give to Charity

By Katie Brann, CFP®

As a financial advisor, most of my conversations with clients revolve around their families' goals. These days, however, I'm finding that more and more clients want to discuss charitable giving. They recognize that community and non-profit organizations need help now more than ever, and it's rewarding for both me and my clients to accomplish charitable goals.

There are many ways to be savvy with your own finances while giving to charity. Below are three of my favorites.

Qualified Charitable Distribution (QCD)

This strategy applies to individuals over age 70 ½ who have traditional IRAs. Typically, a distribution from a traditional IRA is considered taxable income. However, up to $100,000 can be transferred from your IRA directly to a qualified charity annually and is excluded from taxable income. A QCD can be used to satisfy all or part of a required minimum distribution as long as the funds leave the IRA by year-end.

Gift of Appreciated Securities

Before writing a check to your chosen charity, review your non-retirement investment portfolio. If there's a stock or fund that has appreciated in value and would be subject to capital gains tax when sold, consider gifting shares themselves to charity. Capital gains tax will not apply on the gift and if you itemize deductions, the gift amount may be deductible, up to applicable IRS limits. Be sure to confirm with the charity ahead of time that they can accept the securities you intend to give.

Conversely, if there is a depreciated stock or fund in your portfolio that you no longer wish to own, consider selling that investment for cash and gifting the proceeds to charity. This creates a capital loss that can be used to offset capital gains and ultimately may result in a lower tax bill.

Donor-Advised Fund (DAF)

This option gives you great flexibility to contribute to multiple charities over multiple years. A DAF is funded by a donation of cash and/or securities which can create an immediate tax deduction. Contributions to DAFs are irrevocable, meaning they cannot be returned. Once assets are transferred to the DAF, they have the opportunity to grow tax free, and you as the donor can select the recipient, timing and amount of gifts going forward.

Another tax advantage of a DAF is the ability to "group" deductions into one year. Let's say Mr. and Mrs. Investor give $15,000 to the Alfond Youth & Community Center annually. If they file jointly and take the standard deduction of $25,100, their gift does not result in a tax deduction. By contributing $60,000 to a DAF, they now exceed the standard deduction and can benefit from their gifts while having the flexibility to grant $15,000 from the DAF to the Alfond Center each year.

These strategies are not "one size fits all" and a financial advisor can help determine the appropriate strategy for you. I also recommend consulting with a tax professional to evaluate how giving could affect your personal tax situation.