How Biden's tax plan may spark more charitable giving

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KEY POINTS

- President Joe Biden is calling for a tax hike on wealthy Americans, raising the top capital gains rate to 39.6% from 20%.
- While the plans face pushback from Congress, financial advisors are already exploring tax strategies, such as charitable deductions.
- Biden's proposals may make some charitable giving techniques more attractive.

President Joe Biden's plan to tax the wealthy may trigger a shift in charitable giving strategies.

The administration is calling for more taxes on the top 1% of households — including a hike on the highest capital gains rate to 39.6%, from 20% — to help pay for his $1.8 trillion American Families Plan.

Biden also wants to tax inherited property at death, aiming for generational wealth transfers.

While the plan faces opposition, financial advisors are considering tax planning with their clients. They say Biden's proposal may make some charitable giving tactics more attractive.

"I would argue that the link between tax incentives to give to charity, and people with the desire to give to charity, is actually pretty weak," said David Foster, certified financial planner and founder of Gateway Wealth Management in St. Louis.

Only 17% of wealthy donors say they are always motivated to give based on tax benefits, according to a Bank of America study on high-net-worth philanthropy.

Foster said the No. 1 concern of affluent donors is “will my dollars actually make the impact?”

Still, Biden’s proposal may present tax-savings opportunities for philanthropic Americans.

Charitable deduction

The government offers a tax deduction to encourage gifts to qualified charitable organizations.

To claim the write-off for 2020, single taxpayers need more than $12,400 in itemized deductions, and married couples must have over $24,800.

Itemized deductions may include limited charitable gifts, medical expenses, state and local taxes, mortgage interest and more.

Currently, taxpayers may deduct charitable gifts of up to 100% of adjusted gross income for cash contributions.

But financial experts say donating cash may not offer the highest tax benefit.

Charitable giving strategies

While Congress is still wrestling over Biden’s plans, financial experts say it’s a good time for wealthy Americans to start weighing options.

“It’s unlikely capital gains rates will ever be lower than they are today,” said Ian Weinberg, a Woodbury, New York-based CFP and CEO of Family Wealth and Pension Management.

The proposed higher capital gains levies are prompting tax-planning discussions.

Foster said one charitable-giving strategy is donating stocks or funds that have gained value, known as “appreciated securities.”

This technique offers two tax benefits: a deduction for the asset’s value and avoiding capital gains taxes on the growth.

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> -**Ian Weinberg** CEO OF FAMILY WEALTH AND PENSION MANAGEMENT

Depending on the final law, Weinberg said it may be better to give in 2022, when the higher taxes may go into effect.

“If you’re still able to donate appreciated securities next year, you get a bigger bang for your buck,” he said.

Foster said donors may give directly to charities or through so-called donor-advised funds, which act “like a charity checkbook.” Donor-advised funds offer a tax deduction today while simplifying gifts to multiple organizations.

Another technique, charitable trusts, may also be more appealing if Biden’s plans go through.

Weinberg recommends so-called charitable lead annuity trusts for high-net-worth clients. Depending on the structure of the trust, it may offer the donor a partial upfront tax deduction.

These trusts offer payments to a charity for a set number of years, and once the term ends, the remaining assets may go to heirs.

“This strategy may be even more valuable if and when the tax rates on capital gains and ordinary income rise,” he said.

Check trust documents

Regardless of how tax laws change, Foster said it’s critical to review trust documents.

Successor trustees, who manage the trust after incapacity or death, may need flexibility when distributing assets to heirs or charities. He notes some trust documents aren’t clear on the trustee’s authority, which may be an issue as tax laws change.

“I advocate for making [the trustee’s authority] explicit and clear in the documents,” he said.