ROCKY MOUNT CHURCH

Strategies for Charitable Giving

Charitable Gift Annuities

These are arrangements where the donor makes a large one-time gift to a charity a receives a regular payment back from the charity for the remainder of their lives. The person can take a deduction in the year of payment based on the amount of the contribution less the present value of the annuity.

Donations of IRAs

When someone dies and the assets are left to the heirs, there is generally no tax due by either party. The heirs receive stocks, real estate, etc., at a stepped-up basis, meaning the cost basis is reset to the value at death. Therefore, assets can be immediately sold with no income tax implications. There are a couple of exceptions to assets receiving a stepped-up basis and the one most encountered is IRA and pension accounts. These funds do not receive a stepped-up basis and are fully taxable to heirs when distributed. However, there are no tax implications if these assets are distributed to charities. Therefore, if someone wishes to leave a portion of their estate to charity, they should designate the IRA as the source of the giving.

Required Minimum Distributions (RMDs)

Every individual that is required to take RMDs should make their charitable contributions by having their IRA trustee transfer up to $100,000 from their IRAs directly to a qualified charity and exclude the IRA transfer from income. The IRA transfer to the charity counts toward the IRA owner's "Required Minimum Distributions" (RMDs) for the year. For those who wish to make charitable contributions, this tax break effectively allows a qualifying taxpayer to exclude all or a portion of their otherwise taxable RMDs from taxable income. This, in turn: 1) Could cause your 2023 modified adjusted gross income (MAGI) to stay below the thresholds for the 3.8% NIIT (i.e., $250,000 for joint returns; $200,000 if single), that might otherwise be imposed on your investment income (e.g., dividends, interest, capital gains), and 2) Could also increase various credits and deductions for 2023 that would otherwise be phased out as your adjusted gross income increases. In addition, this could potentially reduce the portion of your social security payments that would otherwise be taxable. Moreover, this exclusion could reduce the amount of your Medicare Part B and Part D premiums for subsequent years which generally increase as your MAGI increases. An individual that is 70 ½ at the end of December 31, 2023, is also eligible to make a QCD even though they are not required to begin taking RMDs.

Donation of Appreciated Securities

Any taxpayer with appreciated securities that cannot donate using a RMD as described above should make all their contributions with appreciated securities. The advantage is that the taxpayer can deduct the value of the securities without including the gain in income.

Bunching

This strategy involves paying two (or more) years' worth of charitable contributions in one year and taking the standard deduction in the year no charitable contributions are made. For example, let's assume a married couple has $10,000 of taxes and $10,000 of home mortgage interest and generally makes $10,000 of charitable contributions for total itemized deductions of $30,000. Over a two-year period, they will deduct $60,000 of itemized deductions from their taxable income. Alternatively, this couple could make all their charitable contributions in one year so that they itemize one year and don't the next. Therefore, in the year they make the contributions they itemize and deduct $40,000. In the other year, they take the standard deduction of $27,700. Therefore, over the two-year period they have deducted $67,700 instead of $60,000.

Donor-Advised Funds

A tool in the bunching strategy is donor-advised funds. These are investment accounts that you can setup through most major investment firms, such as Schwab, Merrill Lynch, Fidelity, etc. This would allow a taxpayer to transfer money or appreciated securities to a donor-advised investment account that they still control and deduct the transfer as a charitable contribution. They can then invest the funds as they wish and transfer to charities at any point in the future. All monies in the donor-advised fund must be eventually disbursed to a charity.