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Tax-Smart Giving Done Right

By: Holly Swan | August 10, 2022

Of all the ways an advisor can form meaningful, multigenerational connections with clients, few are more powerful than amplifying their existing charitable intents. The After-Tax Advisor[®] helps charitably inclined clients understand that while writing a check is easy and convenient, a little planning can lead to better donor outcomes.

Consider asking these three questions to start a conversation about tax-efficient alternatives to traditional cash donations:

- 1. "Have you considered giving highly appreciated stock to your favorite charity instead of cash?"** You'd not only give a donation valued at the market price of the stock, you'd also give away a potential future problem: long-term capital gains tax. The charity won't have to pay that when it turns your stock into cash, and neither will you."
- 2. "Do you have vested, in-the-money nonqualified stock options you haven't exercised?"** These can be a great source of charitable cash because you won't have to adjust any of your current spending to do some good. In a sense, this is found money that would otherwise just be sitting with your stock plan administrator in the form of unexercised options. Giving away the proceeds of a cashless exercise can also solve the potential problem of underwithholding by your stock plan administrator."
- 3. "If you are over age 70 1/2, have you thought about funding your charitable giving through qualified charitable distributions (QCDs) from your IRA?"** A QCD is a direct transfer of funds from your IRA to a qualified charity. QCDs of up to \$100,000 can be counted toward your required minimum distribution (RMD) for the year. While traditional IRA distributions are taxed as ordinary income, QCDs are excluded from taxable income."

Talking with your clients about their charitable giving can help you connect with their deeper emotions and values, build a bridge to their heirs (who may also inherit a charitable inclination) and improve their donor outcomes through smarter giving. Understanding their various account types can create opportunities for better, tax-smart giving.

Bottom line: Charitably inclined clients will appreciate learning about better—and more tax-smart—ways to give than simply writing a check.

concerning their individual situation.

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