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Tax-Smart Strategies for Planned Giving

By: Holly Swan | June 12, 2023

Planned giving allows individuals and families to make charitable contributions while reducing their tax burden.

Imagine your charitably-inclined client Jen has a large concentrated position of employer stock. While diversification is of interest, she is concerned about the tax implications of a sale. Luckily, depending on Jen's priorities, there are several tax-smart strategies that can help her address a concentrated position while funding her philanthropic endeavors.

Strategy 1: Maximizing Income Tax Benefits by Giving Securities Instead of Cash

A key benefit of charitable giving is managing tax consequences. Consider asking, "Are you aware of the benefits of funding your charitable giving with appreciated stock instead of cash?" Jen's answer will help you understand the role that tax management plays in her charitable giving. If Jen sells the stock outright, she will most likely pay federal long-term capital gains tax plus any applicable state and local taxes. Then, if she gives the after-tax proceeds from the sale to charity, her federal income tax deduction would be based on the amount left after paying taxes. If instead, Jen contributes the stock directly to a qualified charity or planned giving vehicle, no federal capital gains taxes are due on the contribution. She may also be eligible to receive a charitable income tax deduction for the full fair market value of the gift, not to exceed 30% of her adjusted gross income.

Strategy 2: Establishing a Legacy of Giving

Perhaps Jen feels strongly about establishing a legacy of giving within her family. Find out by asking, "How important is it to instill your philanthropic values across the younger generations of your family?"

If it is a priority, funding a donor-advised fund (DAF) via a contribution of long-term appreciated securities can help Jen avoid the recognition of capital gains taxes, deduct the full fair market value of the stock (not to exceed IRS limitations) and ensure her charitable legacy continues for generations to come.

Strategy 3: Generating an Income Stream and Maximizing Charitable Impact

If Jen is wary of contributing the appreciated stock to charity because she may need access to the income later in life, alleviate her concerns by asking, "Did you know that there are ways to benefit your charity of choice while generating an income interest through your lifetime?"

A split-interest giving vehicle, such as a charitable remainder trust or a pooled income fund, can help generate a lifetime income stream for herself or her beneficiaries, and ultimately pass the remaining assets to charity. If established early in life, split-interest giving can help provide financial security to the donor or their beneficiaries and exponentially increase the payout for the charity.

Bottom Line: By understanding your clients' priorities around their charitable impact, legacy and taxes, you can help identify a tax-smart giving strategy that aligns with their philanthropic and financial goals.

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