5 Important Charitable Gifting Strategies to Achieve Your Year-End Goals

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As we approach the end of 2021, charitable gifting is top of mind for many individuals looking to make donations before year-end. As the tax year comes to a close, investors look to charitable giving as a way to not only fulfill their philanthropic goals but also to take advantage of the tax benefit in donating to eligible charities. As you consider how to best move forward, here are five considerations to discuss with your client team to establish a charitable gifting strategy.

1. Define your Objectives

Before making any decisions on charitable gifting, thinking about why you are gifting is an important step in figuring out the best strategy to meet your objectives. While many individuals recognize they have a desire to be philanthropic, it can be overwhelming to narrow down the recipients, and appropriate dollar amounts to donate. There are ways to maximize a tax benefit immediately while allowing yourself time to formulate a thoughtful plan. Alternatively, there can be charitable endeavors that individuals want to support because the timing is right to make a significant contribution to a certain cause. Understanding the near and long-term goals can help you and your advisor determine the best path forward.

2. Identify Appreciated Assets

With markets at all-time highs, investors are finding an abundance of capital gains across their portfolios. Whether it be mutual funds, ETFs or individual equity positions, charitable giving presents an opportunity to donate these appreciated assets and not incur the capital gains that would be realized if the assets were sold. Your advisor can assist in identifying appropriate assets for gifting, as this often presents an opportunity to select securities from areas that have grown overweight compared to their target allocation. This allows investors to bring their portfolio more in line with target allocations without incurring capital gains to do so.

3. Donate Assets Directly to a Charitable Organization

Most charitable organizations will accept donations in the form of cash or securities. While many individuals default to making their donations in the form of writing a check, there is often the opportunity to deliver securities directly to the charity. Since non-profits are exempt from Federal Taxation, the charity is then able to sell the securities without incurring the gain that an individual would by selling securities and then gifting cash.

An important consideration with this strategy is that it often takes a few weeks for securities to transfer to the recipient account. During this time period, market fluctuations can cause the value of the identified securities to increase or decrease during the transfer period. In the event that the value of gifted securities decreases in this time, individuals will often contribute cash to make up the difference.

This is generally a preferred method of gifting when making a large contribution to one organization. If an individual is seeking to make several smaller donations across several charities, it is administratively simpler to donate to a Donor Advised Fund (as described below).

4. Establish a Donor Advised Fund (DAF)

A Donor Advised Fund is a giving account that is established at a public charity, such as Fidelity Charitable or Schwab Charitable. The individual who establishes the DAF then will instruct the administrator (i.e., Fidelity, Schwab) to make a donation out of their account. As long as the donation is going to a publicly recognized 501c3 organization, the gift will be processed.

Donors will establish the DAF by making an initial contribution, at which time they will receive the tax benefit of making the donation. Any additional contributions to the fund over time will give additional tax deductions.

5. Contribute a few years' worth of donations to your DAF

One of the biggest benefits of a DAF is that once assets are contributed, there is no requirement as to when those assets ultimately need to be directed to a qualified charity. After an extended period of growth in the markets, using appreciated securities to cover donations for the near and intermediate-term can allow for taken advantage of asset growth and covering future charitable gifting in the event that markets correct and subsequent years present less of an opportunity to gift appreciated assets. This is also a popular strategy in a year when significant capital gains are realized in the portfolio, allowing for a larger tax deduction in that same year.

If you are considering pre-funding a DAF with several years' worth of gifting, you may consider investing those assets in order to continue to allow the assets to grow with the markets. Over time the initial donation to your DAF can grow, allowing you to maximize your charitable contributions.

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