Charitable Distributions

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Guide to Charitable Distributions & Giving Options

Charitable giving not only benefits the causes you care about, but it can also provide valuable tax advantages and help you align your financial goals with your values. There are several ways to contribute to charitable organizations, and understanding your options can help you make the most impact, both for the charity and your personal financial situation.

This guide covers some of the most popular charitable distribution options available to individuals, including Donor-Advised Funds, Qualified Charitable Distributions, and Charitable Remainder Trusts.

Donor-Advised Funds (DAFs)

A Donor-Advised Fund (DAF) is a philanthropic vehicle that allows you to contribute to a fund and then recommend how the money is distributed to charity over time.

Key Features of Donor-Advised Funds:

- Tax Benefits: Contributions to a DAF are tax-deductible in the year they are made, allowing you to receive an immediate charitable deduction. The funds grow tax-free until they are granted to a charity.
- Flexibility in Giving: Once the donation is made to the DAF, you can recommend grants to qualified charitable organizations at any time. This flexibility allows you to spread out your charitable giving over multiple years.
- Investment Options: DAFs allow the funds to be invested in a variety of investment options, so your charitable dollars can grow until you're ready to distribute them to a charity.
- Control: While you can recommend where the funds go, the sponsoring organization (typically a public charity) has final approval over distributions.
- Easy to Set Up: Opening a DAF is relatively simple, and many financial institutions offer DAF programs. You can contribute various types of assets, including cash, stocks, and appreciated assets like real estate.

Benefits of a DAF:

- Simplifies your charitable giving by allowing one central place for donations to multiple causes.
- Provides an immediate tax deduction.
- Enables long-term giving, especially useful for those who want to make substantial contributions but spread them out over time.

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Qualified Charitable Distributions (QCDs)

A Qualified Charitable Distribution (QCD) allows individuals aged 70½ or older to donate directly from their IRA to a qualified charity, while potentially avoiding taxes on the distribution.

Key Features of QCDs:

- Tax Benefits: QCDs are excluded from your taxable income, which means you won't have to pay income tax on the donated amount. This can be especially beneficial for those who do not itemize deductions but still want to support charitable causes.
- Direct IRA Donations: To qualify as a QCD, the funds must be transferred directly from the IRA to the charity. You cannot take possession of the funds and then give them to the charity.
- RMDs: If you're required to take Required Minimum Distributions (RMDs) from your IRA, you can satisfy all or part of the RMD with a QCD, reducing your taxable income for the year.
- Limits: The maximum amount that can be donated through a QCD is $100,000 per year per individual. If you are married, both spouses can contribute up to $100,000 each from their own IRAs

Benefits of QCDs:

- Reduce your taxable income and avoid paying taxes on your IRA distributions.
- Satisfy your IRA RMD requirement without increasing your taxable income.
- A great strategy for individuals who want to donate to charity and lower their tax liability in the process.

Have a charity in mind or not sure which charity to donate to? Click the link below to the IRS' search tool for eligible charities.

Eligible Charity Search

Charitable Remainder Trusts (CRTs)

A Charitable Remainder Trust (CRT) is an irrevocable trust that provides income to you (or other beneficiaries) for a specified period, after which the remaining assets go to charity.

Key Features of Charitable Remainder Trusts:

- Income for Beneficiaries: The trust pays a fixed percentage or dollar amount to you or other beneficiaries for a defined period, which can be a set number of years or the lifetime of the beneficiaries.
- Tax Deductions: When you establish a CRT, you receive a charitable deduction based on the present value of the remainder interest that will eventually go to charity. The deduction depends on the size of the trust, the income payout, and the term of the trust.
- Charitable Beneficiary: When the trust term ends, the remaining assets are donated to one or more qualified charities. You can choose which charities will receive the remainder.
- Tax-Exempt Status: The CRT is tax-exempt, which means it can sell appreciated assets (such as real estate or stocks) without paying capital gains taxes. This allows the full value of the assets to benefit the trust and the eventual charitable recipients.

Benefits of Charitable Remainder Trusts:

- Provides you with income for a specified period (e.g., your lifetime or a set term).
- Offers a charitable deduction and helps reduce your taxable estate.
- Allows for the sale of appreciated assets without triggering capital gains taxes.

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Charitable Lead Trusts (CLTs)

A Charitable Lead Trust (CLT) is similar to a CRT, but in reverse. In a CLT, the charity receives income for a set period, and the remainder goes to you or your heirs.

Key Features of Charitable Lead Trusts:

- Charity Income: The charity receives income from the trust during its term, which can be a fixed amount or a percentage of the trust's value.
- Remainder to Heirs: After the term ends, the remaining trust assets pass to your heirs, potentially reducing estate and gift taxes.
- Tax Benefits: You may receive a charitable deduction based on the present value of the income stream that will be donated to the charity.

Benefits of Charitable Lead Trusts:

- Provides support to a charity during the trust term, while ultimately benefiting your family members.
- Reduces the value of your taxable estate and can help with tax planning for wealth transfer.
- Ideal for individuals who want to benefit both charitable organizations and their heirs.

Charitable Gifts of Appreciated Assets

In addition to cash donations, you can donate appreciated assets such as stocks, bonds, real estate, or artwork directly to a charity. This option allows you to avoid paying capital gains taxes on the appreciated value of the asset.

Key Features of Charitable Gifts of Appreciated Assets:

- Tax Efficiency: Donating appreciated assets allows you to avoid paying capital gains taxes on the increase in value, making it a more tax-efficient way to give.
- Value of the Donation: The value of your donation is based on the fair market value of the asset at the time of the donation.
- No Capital Gains Tax: By donating the asset directly to the charity, you avoid paying the capital gains tax that would apply if you sold the asset.

Benefits of Charitable Gifts of Appreciated Assets:

- Avoid capital gains taxes on the appreciation of assets.
- Provide a significant gift to charity, often at a lower after-tax cost to you.
- A great option for individuals who have significantly appreciated assets in their portfolios.

Choosing the Right Charitable Distribution Strategy

When considering a charitable giving strategy, it's important to assess:

- Your Financial Goals: Are you looking to reduce taxes, provide ongoing support to a charity, or make a large one-time gift?
- Tax Implications: Some charitable giving strategies offer more significant tax advantages than others.
- The Impact on Your Estate: Consider how your charitable giving strategy aligns with your estate planning goals.

A financial advisor can help you navigate these options and develop a charitable giving strategy that aligns with your financial and philanthropic goals.

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Conclusion

Charitable giving is an impactful way to leave a legacy and help support causes that matter to you. Whether you're interested in immediate tax benefits or a long-term strategy to benefit your heirs and charities, there are numerous options available. From Donor-Advised Funds and Qualified Charitable Distributions to Charitable Remainder Trusts, each option offers different features and benefits.

By carefully considering your financial situation and goals, you can select a charitable distribution strategy that maximizes both your impact and your tax advantages. If you're unsure which option is right for you, a financial advisor can help guide you in choosing the best charitable giving strategy.

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