HIGH-NET-WORTH INDIVIDUALS AND CHARITABLE GIVING

Benevolence does not have to come at the expense of tax savings.

LET'S BE CLEAR: CHARITABLE GIVING IS A STANDALONE ACT WHOSE VALUE IS TO BENEFIT OTHERS.

But for high-net-worth individuals, it is not conflicting to point out tax considerations when making charitable contributions. The considerations are not to deter giving; rather, they are to guide the high-net-worth individual to do so in a way that also minimizes their tax consequences, providing them with a more accurate cost of making such a contribution.

With that in mind, we offer a few key considerations as you seek to share your good fortune with others.

Type of donation

The type of donation you make impacts the tax consequences of your gift. If you donate appreciated stock that you have held for more than a year, you would receive two benefits: one, the full value of the appreciated stock is characterized as a charitable deduction for tax purposes; and two, you do not have to recognize the stock appreciation as income. In other words, you reap the full value of the stock as a deduction without having to pay taxes on your capital gains.

There is a caveat here: When making non-cash donations, you are limited to 30% of your adjusted gross income for purposes of receiving a tax deduction.

Making contributions

There are tax implications for the way you go about making a charitable donation. For instance, if you intend to donate a large sum of money among multiple charities, consider utilizing a donor-advised fund. The value that you contribute to the fund is deductible during the year in which it is made, while you can distribute money from the fund over subsequent years. This eliminates the need for you to determine immediately the various charities you want to support.

Consider, too, the establishment of a private foundation. Similar to a donor-advised fund, this would allow you to take a tax deduction in the year when you contribute to the foundation, though distributions can take place in subsequent years. You are limited to cash donations of up to 30% of your adjusted gross income, and 20% for non-cash donations, in terms of the eligible amount for a deduction. (There are considerable administrative rules associated with a private foundation, details for a future article.)

Under the 2017 Tax Cuts and Jobs Act (TCJA), you can deduct cash contributions to charities up to 60% of your adjusted gross income. This generous deduction is particularly attractive to high-net-worth individuals who itemize expenses on Schedule A of their federal tax return.

The TCJA also doubled the previous federal estate, gift, and generation-skipping transfer (GST) tax exemptions to $10 million. Note that this amount is scheduled to revert to the previous $5 million exemption on January 1, 2026.

Finally, if you are at least 70 1/2 years of age, you can make charitable donations from a traditional IRA up to $100,000 annually without paying taxes on the amount.

The above are just a few of the common ways to reduce your tax burden when making a charitable donation. For more information about structuring your charitable donations, speak with a financial professional.