LEHIGH VALLEY COMMUNITY FOUNDATION

CAUSE CONNECTION

Connecting people who care to causes that matter

April 2024

Tax Return Reviews Can Help You Level Up Giving Plans

Tax season is more than just a time for numbers; it's an opportunity to reflect on your charitable giving and plan how to make a greater impact. When reviewing your tax return, take a moment to consider how you've supported your favorite causes. Were your contributions in cash, or did you donate other types of assets? This is the perfect starting point for thinking about the most impactful ways to give in 2024 and beyond.

Here are 4 key ideas to help you explore the spectrum of your charitable giving options:

1. **Rethink Cash Donations:** While convenient, cash donations might not be the most tax-efficient way to support charity. Instead, consider donating assets that have increased in value, like stocks, through your fund at the community foundation. This approach can benefit your favorite charities and provide you with tax advantages.

2. **Broaden Your Horizons Beyond Stocks:** Beyond publicly-traded stocks, other non-cash assets can make significant charitable contributions. Many people find that their most valuable assets are retirement accounts and real estate, not liquid cash. Depending on your situation, consider donating real estate, privately-held stocks, collectibles, or making direct transfers from an IRA if you're over 70 ½. These can be fantastic ways to support causes you care about while optimizing tax benefits.

3. **Leverage Expertise:** Don't navigate these decisions alone. The Community Foundation team is here to guide you through selecting the best assets to donate, ensuring your philanthropic goals are met efficiently and effectively.

4. **Understand IRS Requirements:** It's important to know that non-cash donations have different IRS reporting requirements compared to cash donations. Familiarize yourself with IRS Form 8283 for non-cash assets valued over $500, adhering to the requirement for a qualified appraisal. Rest assured, the Community Foundation will manage the necessary confirmations and documentation for the IRS.

Expanding your approach to charitable giving can align with your broader financial and estate planning goals, benefiting your legacy and the causes you're passionate about. LVCF is always here to help explore strategies and techniques that maximize your philanthropic impact. Let's make your giving journey as fulfilling and effective as possible to improve the quality of life in our region.

Shell funds and other tools for charitable giving when you're planning ahead

The LVCF team is dedicated to assisting you with your long-term charitable giving, establishing structures now to honor your future bequests.

When creating your estate plan with the intention to donate to multiple charities, you might find that your interests in these organizations change over time. You may want to adjust your charitable gifts without altering your entire estate plan. For example, you might initially decide to give 10% of your estate to five chosen charities. If you later decide to support an additional cause, changing the original trust could be a complex process.

A simpler solution is to have your trust designate a portion of your estate, like 10%, to a Community Foundation fund. Together, we can craft a fund agreement detailing your chosen charities. If you want to change which charities are supported, or add new ones, you can easily update this agreement with us. This method ensures your giving remains adaptable to changing community needs.

For those not planning to use their fund during their lifetime, setting up a "shell fund" with LVCF is an option. This fund remains dormant until activated by your estate, and you can name it and alter its directives anytime before your passing.

Feel free to reach out for more information on how we can help tailor your charitable legacy to reflect your evolving philanthropic goals.

Gifts of appreciated stock: Let the numbers do the talking

While many donors prefer giving cash, it's valuable to understand that donating appreciated assets, like stocks, can be more beneficial for tax purposes when supporting your favorite causes. We recognize that the nuances of this approach might seem daunting. To make this clearer, we share some numbers that illustrate the tax advantages of donating appreciated stock. Here are three examples to showcase why this method of giving could be more effective for you.

Sally & Bob Jones $100K

Sally and Bob Jones plan to give $100,000 to their donor-advised fund at LVCF to organize all of their giving for the calendar year. Let's assume Sally and Bob have a combined adjusted gross income of $600,000, which lands them in the 35% federal income tax bracket. If they gave $100,000 in cash to their donor-advised fund, they could realize an income tax savings, potentially, of $35,000.

What if instead of cash, Sally and Bob gave highly-appreciated, publicly-traded stock, valued currently at $100,000, to their donor-advised fund. Let's assume they've been holding the stock for many years, and the shares have a cost basis of $20,000. Not only are Sally and Bob eligible for a potential income tax deduction that will save them up to $35,000, but they have also potentially avoided $12,000 of capital gains tax that they would have owed if they'd sold the stock (using a long-term capital gains tax rate of 15%). So, it's easy to see why Sally and Bob should consider giving highly-appreciated stock instead of cash.

Jen & Joe Smith $1 million

Jenny and Joe Smith plan to give $1 million to community causes this year. They'll do that by adding $500,000 to their donor-advised fund at the Community Foundation, which in turn they will use to support their favorite charities. They'll also be making a $500,000 gift to an unrestricted fund at LVCF to help address the region's greatest needs for generations to come. Let's assume that Jenny and Joe are in the highest federal income tax bracket because they earn multiple seven figures.

If they were to give $1 million in cash, they could save, potentially, up to $370,000 in income tax. If they gave publicly-traded stock instead of cash, assuming a $200,000 cost basis in stock valued currently at $1 million, they would still potentially save up to $370,000 in income tax, and they would also potentially avoid $160,000 in capital gains tax (based on a long-term capital gains tax rate of 20%).

Tiffany & Brett Thomas $5 million

Tiffany and Bob Thomas plan to give $5 million to charity. They would like to use publicly-traded stock valued at $5 million. The want a lifetime income stream from these assets, so that the remaining assets will flow to their fund at the LVCF after their deaths. In this case, they'll explore setting up a charitable remainder unitrust that pays out an income stream to Tiffany and Brett while they are both living and then to the survivor for the survivor's lifetime.

Let's assume they are both 55 years old and that the stock has a very low cost basis—just $500,000. Depending on the IRS's applicable rates, and assuming a 5% annual payout rate paid at the end of each quarter, here's an approximate tax result if their advisor worked with LVCF to help Tiffany and Brett establish a charitable remainder unitrust:

- $1,042,550 approximate potential income tax deduction based on the present value of the gift of the remainder interest to charity
- $4,500,000 in capital gains that may not be subject to tax
- 250,000 in total payments during the first year
- Annual payments of 5% of the value of the assets in the trust, which means the income stream will fluctuate depending on the value of the assets

Following the death of the survivor of Tiffany and Brett, the remaining assets will flow to the Thomas Family Fund at LVCF, which Tiffany and Brett have already established and which, upon their deaths, will split equally into two funds. The first fund will be a donor-advised fund for which their children will serve as advisors, and the second fund is an unrestricted endowment fund to support the Community Foundation's priority initiatives in perpetuity.