

Tax Efficient Giving

Believe it or not, it's November... and just like that we're nearing another year end. As we approach the holidays and end of 2022, many folks with a giving heart begin considering ways to give back and make charitable donations. With that in mind, I wanted to bring a couple of options to your attention that may improve your ability to donate and also improve your tax situation for the current year. There are many possibilities but I wanted to focus on two ways to give to a charitable entity.

Many folks do not realize that with the standard deduction increase of a few years ago, and its recurring annual increases (see the below chart) many Americans take the standard deduction instead of itemizing on their annual income tax return. One byproduct of taking the standard deduction is that if you give charitably through cash donations, you do not receive any tax benefit for these donations.

Filing Status	2022 Tax Year	2023 Tax Year
Single	\$12,950	\$13,850
Filing Jointly	\$25,900	\$27,700
Head of Household	\$19,400	\$20,800

In an attempt to avoid complexity, I wanted to discuss just two possible ways to receive tax deductions for your charitable giving. These will not apply to every taxpayer, and it will depend completely on your individual or family's financial situation. However, if either of these seem interesting to you, please reach out to your Statherós Financial team for a detailed conversation around whether or not these strategies are a good fit. Please note that we are not a tax advisor and that you may need to consult your tax professional prior to moving forward with one of these options.

1. **Qualified Charitable Distribution (QCD)**

A QCD is most applicable to folks with Individual Retirement Accounts (IRA) that are of Required Minimum Distribution (RMD) age – currently defined as 72 years of age and older. At this age, Uncle Sam requires a minimum amount that must come out of your traditional (pre-tax) IRA. The money that you are required to withdraw counts as taxable income to you for the current year. To reduce the tax impact, you have the option to have all, or a portion, of this required distribution go directly to a qualified charity (501c3). The funds must go directly from the custodian (TD Ameritrade) to the qualified charity in

order to qualify as a QCD. At present, any QCD you make does NOT count as taxable income to you. This type of charitable donation can reduce taxable income significantly.

How To: If you have not already taken your RMD for this year and wish to donate it, a simple form indicating the name of the charity, its mailing address, and the amount of your donation is all that is required. A QCD has to be fully executed by Dec 31st of the tax year in order to qualify, and that includes any processing lead times. To ensure your donation is processed for the current tax year, please contact us no later than November 30, 2022 to request the form. We will submit it to the custodian on your behalf. If you have already taken your RMD for this year but still wish to make a charitable donation, please let us know. If you will otherwise take the standard deduction for 2022, this could still be an advantageous option for those wanting to make charitable donations this year.

2. Donor Advised Fund (DAF)

Utilization of a DAF usually applies to folks with a higher net worth, sizeable taxable income, as well as a heart for giving on a regular and ongoing basis. The DAF is a spectacular vehicle for giving. In simple terms, this is an account that you establish and fund, have investment and distribution control over, but you do not (and cannot) own personally. Typically, an intermediary firm that specializes in DAF's is employed (at Statherós we use the American Endowment Foundation). You are the "trustee" of the fund and dictate which charitable entities (501c3) receive donations.

Here's how it works. You contribute appreciated assets (holdings, that if you sold for cash, you would have to pay capital gains tax on) to this account. From this account, you then direct the intermediary firm where and when you would like the funds to be donated. Assets transferred to a DAF account don't have to be donated in the same tax year - they don't even have to be given in your lifetime, but probably should be. The best part, other than giving, is that you'll get a tax deduction for the year in which your assets transfer into the DAF account. Once there, you can donate from it to the qualified charities of your choice for years to come. Here are the major advantages:

- a) Reduced Income Tax: Immediate income tax deduction in the year you contribute to your DAF with some limits:
 1. Deduction for cash – up to 60% of AGI
 2. Deduction for securities and other appreciated assets – up to 30% of AGI
- b) Reduced Capital Gains Tax: You will incur no capital gains tax on gifts of appreciated assets
- c) No Estate Tax: Your DAF will not be subject to estate taxes as it is owned by the intermediary firm rather than you

- d) Tax-Free Growth: Your investments in a DAF can appreciate tax-free
- e) Alternative Minimum Tax (AMT): If you are subject to alternative minimum tax (AMT) your contribution will reduce your AMT impact

DAF Example: Mr. and Mrs. Doe are married and file a joint return with an annual AGI of \$250,000 and generally take the standard deduction. They typically donate about \$15,000 annually in cash to various 501c3 charities. Currently, for the combined 2022 and 2023 tax years, their standard tax deductions are a total of \$53,600 (\$25,900 + \$27,700). Let's assume instead that in 2022 they decide to use a DAF and instead move \$30,000 in appreciated assets to their Doe Family DAF account. In this revised example, for the combined 2022 and 2023 tax years, they are still able to give \$15K each year from their DAF account to the charities of their choice (and have the potential of giving more because the assets in the DAF account are invested for growth in the years to come). Using a strategy known as "tax clumping," the Doe's are able to itemize their taxes in 2022 taking the full \$30,000 DAF contribution (plus any other deductible expenses), and then taking the standard deduction again in 2023 creating a combined tax deduction of \$57,700 (\$30,000 + \$27,700) – a \$4,300 larger deduction over the two year period. Furthermore, if they transferred more than \$30,000 to the DAF account in 2022 (not to exceed \$75,000 or 30% of their AGI) the tax deduction amount could be much larger – as much as \$102,700 for the combined two-year period in this example.

How to: Talk with your Statherós Team or your tax professional to make sure a DAF is right for you. To ensure your tax-deductible funding can occur timely, we need to have your account paperwork completed by November 15th. Once the account is opened, we still need a week or so to get your assets transferred into the account in order to trigger the tax deduction for this year. The time to act is **now**.

Processing lead times get longer as we approach the end of the year and I would encourage you to reach out to your Statherós Team as soon as possible if either of these giving strategies have piqued your interest.

Sincerely,

Jake Parsons

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President and CEO