

# Year End Giving

## Year-End Charitable Giving Ideas: A Primer

As the leaves begin to turn and the holidays approach, it is natural for the holiday giving spirit to start to emerge. Giving to friends and family this time of year is, of course, natural, but the good tidings and generosity often extends to charities as well. And, although most people don't give to charity solely for the income tax advantages, the approaching year end also prompts us to consider our upcoming tax bill, which timely charitable donations could help reduce. But many potential donors don't fully realize the variety of ways they can make their gifts. So let's consider some of the alternatives when it comes to supporting charity.

### Checkbook Philanthropy

We often associate the term "philanthropist" with the ultra-wealthy, but if you write checks (or donate online) to your favorite charity, you're as much a philanthropist as any Gates or Buffet. Mailing checks to charities (or clicking through their "Donate" pages) is the most popular method for giving. But it's the least tax-efficient way to make charitable gifts. Your \$100 check to charity garners a \$100 charitable deduction.

Other methods of giving can be more attractive from a pure tax standpoint, as discussed below. But if you make smaller donations to several charitable organizations, giving cash may still be the best way to make such gifts.

### Larger-Impact Donations/Gifts of Appreciated Assets Like Stock

If you take this time of year to make more significant contributions to your favorite charities, rather than simply writing a check, you might consider donating appreciated stock. The tax rules governing gifts of long-term-capital-gain property, such as appreciated stock, significantly favor the donor.

Investors selling appreciated assets must pay tax on the capital gain (the difference between the price they paid for the asset and the fair market value on the date sold). But by giving the same asset to a qualified charity, they can avoid the capital gain tax and get an income tax deduction for the fair market value of the asset at the time of the gift. This method of giving can help preserve donors' cash for current needs and reduce a future tax if they had to sell the asset and recognize the gain. Unfortunately, a recent survey on charitable giving indicated that less than 60% of respondents knew they could make gifts of appreciated assets to leverage the tax benefit, and only 19% structured their giving this way.

## Donations from Your IRA

Another charitable gifting option is available for individuals over age 70 ½ who are required to take a required minimum distribution (RMD) from their IRA. By making a "qualified charitable distribution" directly from their IRAs to charities, they can satisfy their RMD without having to recognize the distributed amount as income.

The distributed amount isn't included as income because it is made directly to the charity rather than to the taxpayer-donor. In this case, the donor cannot claim a charitable deduction, but because the RMD isn't counted as income, the phase-out of the taxpayer's personal exemption or deductions could be reduced. And less of their Social Security benefits might be subject to tax. Under current law, individuals can direct up to \$100,000 annually from their IRA to a charity. For those with sizeable IRA accounts, this option can result in significant tax savings.

The rules in this area are a bit technical, so we encourage you to work with your tax advisor if you want to pursue a gift from an IRA.

### Want to Create a Charitable Legacy?

Families who want to get a charitable income tax deduction this year – but make their giving decisions later – can consider establishing a fund at a local community foundation. Because community foundations are charitable entities, donors receive an income tax deduction for the year they contribute to their fund, regardless of whether the fund makes any distributions for charitable purposes. These funds are similar to private foundations and can serve as fantastic vehicles for creating charitable legacies by engaging younger generations in the family's giving decisions. Every community foundation has its own rules, procedures, and style. So do your research to ensure you're comfortable with their team.

Of course, more advanced giving strategies can benefit your favorite charities through your estate plan and the use of trusts. These strategies can also reap tax benefits while establishing your philanthropic legacy. If you have questions about any of these gifting techniques, your Hilliard Lyons financial consultant can help coordinate discussions with your attorney or tax advisor.

*Hilliard Lyons Trust Company, LLC does not provide tax or legal advice. Clients should consult with their own attorneys and accountants regarding their own individual situation.*



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