WELLS FARGO Wealth & Investment Management

Charitable giving strategies

Evaluating your charitable giving strategies to maximize your tax benefits is more important than ever with the continuous tax law changes. The following information discusses various charitable giving strategies and tax rules to review with your tax advisor.

Gift of Cash	This is a simple way to gift and the most common. Generally, taxpayers must itemize their deductions in order to benefit from a cash contribution unless they utilize the qualified charitable distribution strategy below. See page 2 for rules that may limit your deduction.
Gift of Appreciated Securities held longer than a year	Taxpayers are allowed a charitable deduction generally equal to the fair market value of the security and avoid paying capital gains tax on the unrealized gain. Thus, they are potentially giving more to the charity than if they had liquidated the asset and donated the cash net of taxes. Taxpayers must itemize in order to claim a charitable deduction. See page 2 for rules that may limit your deduction.
Qualified Charitable Distribution (QCD)	For taxpayers age 70½ or older, a QCD allows you to gift directly from your IRA up to $100,000 per year to qualifying charities. QCDs are tax-free distributions and count toward satisfying your required minimum distribution (RMD). No deduction is allowed since the distribution is not taxable. This strategy is beneficial if the taxpayer will not itemize their deductions in the current year. It could also help taxpayers control their adjusted gross income (AGI) which is used to determine many tax-related limitations. The amount of the QCD you are able to exclude from your income is reduced by any deductible IRA contributions you make in the year you reach age 70½ or after. **Note:** Beginning in 2023, the Secure Act 2.0 expanded the QCD provision to allow as part of their annual $100,000 QCD limit a one-time $50,000 distribution to certain split interest entities including a Charitable Remainder Annuity Trust, Charitable Remainder Unitrust or Charitable Gift Annuity funded only by qualified charitable distributions. QCD Inflation adjustments will begin in 2024. Due to the complexity of this new provision, consult your tax advisor prior to making any distributions to these entities.
Charitable Bequests at Death — IRAs, Annuities, Life Insurance, and Retirement Plans	By naming a charity as the beneficiary of your IRA, annuity, life insurance policy, or employer retirement plan, assets avoid both income tax and estate taxation upon passing to charity at death. However, taxpayers do not benefit from a deduction during their lifetime and the assets will not be available to their heirs.
“Bunching” of Charitable Contributions	If your itemized deductions are less than the standard deduction, your charitable contributions are not deductible. Evaluate the impact of bunching multiple years’ worth of charitable contributions into the current year. This may increase your itemized deductions above the standard deduction threshold so you can receive a tax benefit for those gifts. A Donor Advised Fund (DAF) is a charitable giving vehicle which can assist with “bunching” of charitable contributions into a given year. The contribution to a DAF is an irrevocable gift allowing the taxpayer to take a tax deduction in the current year, but provides flexibility in dispersing the funds to specific charities over future years. Establishing a DAF is also beneficial in a year where your taxable income may be unusually high. DAFs accept long-term appreciated securities, as well as cash. For other acceptable types of contributions contact your financial professional and/or the Donor Advised Fund representative. **Note:** DAFs are not considered qualifying charities under the QCD rules.

IRS resources: Find the type of organization by using the Tax Exempt Organization Search tool at **irs.gov**.

IRS Publication 526 also has helpful information about claiming a deduction and the required record keeping.

The use of a donor advised fund is mentioned above as a vehicle for facilitating charitable goals. Other vehicles you may wish to explore include charitable trusts, foundations, pooled income funds, and gift annuities. Be sure to work with your financial professional, tax advisor and legal advisors to learn more about charitable giving ideas and what may be appropriate for your situation.

Considerations for choosing stock versus cash gifts

When deciding to make a direct gift of stock or cash, remember that your deduction may be limited by your income as shown in the following chart. The limitation is based on the type of organization and the type of gift. If your deduction is limited by your income, excess deductions may be carried forward for up to five additional years. If you are looking to maximize your contributions, your tax advisor can assist with determining whether these limitations will apply and how best to fully utilize your deduction, if limited.

Public Charity: An organization supported by contributions from many different donors and usually has an active fundraising program. Churches, universities, not-for-profit hospitals, and medical research organizations are a few examples.

Private Foundation: An organization which often receives most of its support from a single donor, family, or corporation. It often focuses on making grants to other charities rather than operating their own charitable programs.

Type of Gift[1]	Public Charity Limit	Private Foundation Limit
Cash or Check	60% of AGI	30% of AGI
Stock (held more than 12 months)	30% of AGI	20% of AGI

[1] For ease of illustration the chart and example is limited to cash/check and long-term appreciated stock. Other marketable securities and assets may be gifted as well, but may have different limitations. For details see IRS publication 526 and contact your tax and legal advisors.

Example of potential savings realized: Let's assume a $10,000 charitable gift by an individual who itemizes deductions and whose marginal tax bracket is 37%. Also, their long-term stock has a cost basis of $2,000 and a fair market value of $10,000 on the date of transfer.

Gift	Income Tax Savings†	Capital Gain Tax Savings	Medicare Tax on Investment Income Savings†
$10,000 Cash	$10,000 x 37% = $3,700	n/a	n/a
$10,000 Stock	$10,000 x 37% = $3,700	$8,000 x 20% = $1,600	8,000 x 3.8% = $304

†The amount of income tax saved may be subject to rules that limit charitable deductions as a percentage of AGI. Medicare surtaxes apply to certain higher income taxpayers.

Additional considerations

To qualify for charitable deductions, donors must be able to substantiate all gifts. Record keeping requirements vary depending on the type of property donated and the value of the gift. It is the responsibility of the donor to get and maintain all required information.

Evaluate the various strategies and vehicles available to facilitate your charitable gifts with your tax advisor.

Talk to a Wells Fargo Professional

We welcome the opportunity to work with you to help you achieve your financial goals. Let us know if there are any other topics or services of interest to you.