INSIGHTS

PACIFIC LIFE

RETIREMENT STRATEGIES GROUP | NOVEMBER 2026 TAX PLANNING

Optimizing Charitable Giving for Tax Management

While the tax benefits are not the main reason your clients are gifting, they can have a great impact on the effectiveness of the gift. As a financial professional, you can help make charitable giving part of your clients' broader financial plans.

Charitable giving may be on your clients' minds, especially if year-end holidays are approaching. There are a number of considerations for helping clients make the most of a gift for their tax purposes.

Start with What the Client Wants to Accomplish

First, get a clear picture of your client's intentions by asking these questions:

- Are you making a one-time gift after a particularly good year?
- Do you intend ongoing support for the same organizations?
- Do you want your charitable legacy to continue after death?
- Would you like to provide income to family members while eventually directing assets to charity?

These questions can help you advise your clients correctly, since two people giving the same dollar amount may benefit from very different approaches depending on how they answer.

Look at the Bigger Financial Picture

Once you understand the goals, look at how the gift fits into the rest of the financial plan. Consider income, portfolio, retirement assets, the estate plan, and any anticipated taxable events. A business sale, large bonus, stock-option exercise, or sizable capital gain could influence the timing and structure of a charitable gift.

This is also a good time to involve the client's preferred tax and legal professionals. After all, charitable giving often touches several parts of a financial plan. Advice from multiple sources reduces the risk of one decision creating unintended consequences elsewhere.

Cash Is Easy, but Other Assets May Work Harder

With several charitable strategies available, writing a check isn't always the most tax-efficient choice. Consider a client who purchased stock for $25,000 that's now worth $75,000:

- If they sell it first, they may owe capital gains taxes.
- Donating the stock directly to a qualified charity may avoid the tax while still potentially qualifying for a charitable deduction based on the stock's value.

This strategy allows more of the intended $75,000 gift to go to charity.

A Donor-Advised Fund (DAF) Adds Flexibility

With a DAF, the client makes an irrevocable contribution to a charitable account and may qualify for a tax deduction that year. They can then decide later which eligible charities they want to support.[1]

[1]Though the DAF will most likely honor the charitable request, the DAF has final authority over the gift.

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A DAF does come with tradeoffs. Once contributed, the assets belong to the sponsoring organization, so the client can't take them back. The client may recommend which eligible charities receive grants and when, but the sponsoring organization has the final say. Fees, investment options, grant rules, and contribution requirements also vary by sponsor.

An IRA Offers Another Way to Give

For clients 70½ and a half or older, a qualified charitable distribution (QCD) is worth considering.

- A QCD involves directing a distribution from an eligible IRA to an eligible charitable organization.
- If all requirements are met, the amount may be excluded from the IRA owner's taxable income, up to an annual limit.
- More importantly, for tax-threshold limitations, a QCD is not included in adjusted gross income (AGI).

For clients subject to required minimum distributions (RMDs), an eligible QCD also counts toward satisfying that year's RMD. This combination may appeal to a client who's already planning to donate to charity and doesn't need all of an IRA distribution for living expenses.

There's one important caveat: Since an eligible QCD is excluded from AGI, it won't impact IRMAA penalties or other AGI-based thresholds like charitable deductions. DAFs and certain other organizations are currently excluded as QCD recipients.

Plan Around This Year's Tax Rules

Beginning in 2026, taxpayers who itemize may deduct charitable contributions only to the extent they exceed 0.5% of adjusted gross income.[1] For example, if a client had an AGI of $800,000 and gifted $30,000, the floor is $800,000 x .05%, or $4,000. The deductible amount is $26,000. Beginning with the 2026 tax year, non-itemizers will also get up to $1,000 Single/$2,000 Married Filing Jointly above the line deduction for cash contributions.

This threshold may influence how clients structure their giving, including whether it makes sense to combine planned contributions. It's another reason to view charitable giving as one part of a broader tax strategy. A year with unusually high income or a major taxable event may present a different opportunity than a more ordinary year.

Planning also gives clients more time to decide what to give and how. This is especially important if the gift involves investments, retirement assets, or other property that may take longer to transfer than cash.

Connect Generosity to the Financial Plan

Charitable giving may be a personal decision, but it can affect several areas of your client's financial plan. Discussing charitable intentions in advance gives your client more time to consider the tax implications and which assets best suit the gift. When all these pieces come together, a charitable gift is more likely to do what the client intended: support the organizations they care about while fitting into the rest of their financial plan.

So, when meeting with clients, keep the focus on their charitable goals but tie in tax considerations as a win-win situation. After all, thoughtful planning can help them pursue the same charitable goal in a more tax-efficient manner. That's a result both your client and the organizations they love can get behind.

ACTIONS YOU CAN TAKE RIGHT NOW

- **Discuss giving options with clients**
- **Review assets to determine most efficient way to give**
- **Incorporate giving into investment plan**

Additional Resources and Links

Three Annuity Estate-Planning Tips—and Two Traps

Our Holiday Gift To You: Four Year-End Planning Tactics

Planning Strategies

[1]Internal Revenue Service, "Publication 505 (2026), Tax Withholding and Estimated Tax," March 31, 2026

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