HOW TO MAXIMIZE CHARITABLE DONATIONS FOR TAX MANAGEMENT

Many clients make generous charitable bequests. Learn about some giving strategies that can help make the most of their donation dollars.

Do you know how much your clients are currently contributing to charities or if they plan to do so? How are you helping them maximize those donations? Don't miss an opportunity to add "hidden alpha" to your client's portfolios. Below are a couple options to consider for charitable contributions.

Utilize Qualified Charitable Distributions (QCD)

Many retirees who give to charities also may need to withdraw funds from their Individual Retirement Accounts (IRAs) to make contributions. What if the contribution could be made without impacting their adjusted gross income (AGI)? This may be an option if retirees meet the following requirements:

- Be age 70½ or older.
- May satisfy required minimum distributions (RMDs) up to $100,000 per year.
- Not include the donations in his/her modified adjusted gross income (MAGI).
- Recipient must be a public charity, not donor advised fund (DAF).

Donate Appreciated Assets

Many clients hold assets that have greatly appreciated in value. While some might want to sell, they sometimes hold back due to the potential tax impact. Helping clients to gift appreciated assets—instead of cash—may allow them to avoid immediate capital gains taxes and receive a tax deduction, while benefiting the charity of their choice. Gifting appreciated assets allows clients to:

- Defer capital-gains taxes on appreciation.
- Take a tax deduction of up to 30% off their adjusted growth income (AGI).
- Receive a dollar-for-dollar reduction in the estate value.
- Carry an unused tax deduction forward for up to five tax years.

Leave an IRA to a Charity

An IRA can be a wonderful bequest to a beneficiary. Owners who would like to benefit a charitable cause after their passing may want to rethink which assets are directed to those charitable causes. An IRA may be a good asset option to pass to a charitable beneficiary because:

- The charity will have access to the full cash value, likely to be tax-free due to its charity status.

- It reduces income in respect of a decedent (IRD) assets to the beneficiary. (Designate a natural beneficiary for tax-free or step-up assets at death).
- Client may create a wealth replacement strategy for a natural beneficiary.

Some clients may find the strategies outlined above helpful and appreciate that you took the time to help them maximize their donation dollars. So, make a point to review charitable giving opportunities with your clients. Are they donating cash or appreciated assets? Can they itemize? Are they eligible to make a QCD? All these strategies can be used to maximize your clients' tax savings and increase the dollars available to the organizations.

Additional Resources and Links

Charitable Giving After 2020

Managing IRA RMDs with QCDs, Roth Conversions, and QLACs

Charitable Remainder Trusts (CRTs)

For more information about retirement planning, please contact our Retirement Strategies Group at RSG@PacificLife.com or (800) 722-2333, ext. 3939.
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