NovaPoint CAPITAL LLC

Financial Planning Insights

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Charitable Giving Strategies

Charitable giving is an excellent method for individuals to support causes they care about while also reducing their tax liability. There are various philanthropic vehicles available to gift cash, appreciated securities, real property, and other tangible personal property. Charitable giving strategies can be applied throughout one's lifetime to help reduce current tax liability and estate taxes, while preserving legacy assets to family and charities.

Types of Gifts to Give

Cash: The most basic and easiest donation to give.

- Pros: Cash can be immediately utilized by charity, accounting is straightforward, often eligible for itemized deductions for donor's federal income tax return.
- Cons: Cash can be used by charity in any manner they wish, donors can't guarantee how their gift will be used.

Appreciated Securities: Includes gifting of shares of individual stocks, mutual, exchange-traded, or close-end funds.

- Pros: More favorable tax treatment than if donor sold the stock and donated proceeds, process is managed by brokerage firms, and ability to gift investment assets directly without touching cash basis.
- Cons: Charity must be equipped with a brokerage firm to accept appreciated securities, accounting can be more complex for the charity, can only be gifted from donor's brokerage account and not from a retirement account. Additionally, non-cash donations to public charities, colleges, or religious organizations are only deductible up to 50% of the donor's adjusted gross income (AGI) and further limited to 30% of AGI for appreciated property.

Other Property or Assets: Includes real estate, auto vehicles, stock in privately held businesses, art, collectibles, etc.

- Pros: Good strategy for donors who have more assets in investments and property than cash, more favorable tax treatment than selling such assets and donating proceeds, and donors have more ability to determine the specific use of their gift.
- Cons: Often valuations are needed in advance, some assets may not have liquid markets for the charity to convert to cash, charities may have to institute additional safeguards to protect assets before liquidation can occur.

How to Gift – Charitable Giving Vehicles

Gifting Directly: This is the most common form of gifting via a check or direct transfer.

Qualified Charitable Distributions (QCDs): Best for donors who wish to reduce their income liability by utilizing their required minimum distributions (RMDs) from pre-tax retirement accounts as a vehicle to gift to charity.

- Cons: Cannot claim tax deduction but reduces gross in come for tax liability. Limited to $100,000 per year. Donors cannot utilize this strategy until they begin RMDs at 70.5 - 72 years old.

Charitable Gift Annuity: Donor gifts cash or other property directly to a qualified charity in exchange the charity provides the donor with a lifetime annuity at a specified amount per year. Donor donates assets that exceed value of annuity, and this excess is the gift to charity.

- Pros: The charity receives money immediately, the transfer is direct (no trust involved), donor simultaneously acquires an annuity and makes a charitable gift.

Charitable Trusts: Provides tax incentives while reducing estate assets and thus reducing future estate tax liability. They also eliminate probate and can provide future income streams for beneficiaries.

- **Charitable Lead Trust:** Donor first distributes part of the trusts' proceeds to a charity, and then donor's beneficiaries receive the remaining balance. Donors receive an income tax deduction for distributions to charity.
- **Charitable Remainder Trusts (CRT):** Prioritizes distributions to donors or their beneficiaries. After a predetermined term of the trust, or upon the donor's death, remaining trust assets are distributed to charity. There are two types of CRTs:

  Charitable Remainder Annuity Trust (CRAT): Donor can only fund once with a lump-sum payment, payments to donor are fixed over lifetime or a predetermined term (20-year max).

  Charitable Remainder Unitrusts (CRUTs): Donors can make multiple additions to the trust, income to donor/beneficiaries is a fixed percentage revalued annually thus the actual payment varies. Provides a level of inflation protection.

Charitable Giving Strategies

Pooled Income Fund (PIF): A single public charity trust in which many donors contribute funds, and the charity has full control to manage these trust assets. Donors receive a prorated lifetime income stream and remaining asset interest is retained by charity.

- Pros: Prorated annual income for lifetime of donor is guaranteed (cannot be a term), donor receives income tax deduction for remainder interest held by charity.
- Cons: Cannot donate tax-exempt securities, donors have no control over how their donated assets are invested and used, donors cannot be a trustee of the fund.

Private/Family Foundations: A nonprofit organization created and controlled by an individual(s) for charitable family purposes. Serves as a separate legal entity that is required to distribute a minimum of 5% of the fund proceeds to support charitable activities or organizations.

- Pros: Donor(s) have full control over investment management and distributions, this continues for generations. Ability to also distribute to individuals to enhance educational activities or improve other skills and talents. It is generally exempt from federal taxation.
- Cons: Usually, you must pay a 2% tax on net investment income and there is a 15% penalty if the 5% distribution is not made. These foundations are often highly scrutinized by the IRS.

Donor Advised Funds (DAFs): A fund held by a community foundation or public charity where a donor can recommend eligible charitable recipients and distribution amounts. The DAF retains the right to accept or reject these recommendations. A broker/dealer generally administers the fund, and the fund can often be established with low minimum deposits.

- Pros: Donors can give several years' worth of donations at one time ("bunching") and itemize the whole deduction in one year. This ensures the ability to itemize deductions in advance of changing tax laws. In future years as the donated funds continue to be distributed, the donor can use their now-higher standard deduction.
- Cons: Cannot accept QCDs (RMD distributions).

Other Tax & Estate Planning Strategies

Gift Exclusions: Specifies specific amounts that a taxpayer can exclude from their gross income. If utilized, you cannot also claim a charitable deduction. Taxpayers have more flexibility to use these exclusions towards gifts to family and friends, not necessarily charitable giving.

- **Annual gift exclusion:** For 2025, individuals can give up to $19,000 per year per person/entity. This does not count against the lifetime gift exclusion. Only excess of the limit counts towards the lifetime exclusion. There are additional benefits if married as each spouse can gift to their limit to the same donee (gift-splitting).
- **Lifetime gift exclusion:** For 2025, individuals can give over their lifetime $13,990,000. Only excess of this limit will result in estate tax due at 40%.

Charitable deductions: The IRS allows taxpayers to deduct charitable donations to qualified charitable organizations; however, donations to individuals are not deductible. Charitable donations must be itemized to deduct and can be deducted up to 60% of donor's AGI. Depending on the type of asset donated and type of charity, there may be more specific limits and exceptions.

Final Thoughts

At NovaPoint, our investment, wealth management, and tax experts can help advise you on the best charitable giving method that aligns with your charitable goals while both minimizing your income and estate tax liabilities and maximizing legacy assets for your beneficiaries. If you want to explore your charitable giving options or explore other strategies to support your financial legacy, contact us here.

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NovaPoint – Financial Planning and Wealth Management

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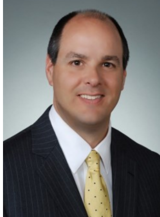
Joe has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a portfolio manager at Spectrum Advisory Services and GMT Capital in Atlanta, and Epoch Investment Partners in New York. He has also worked as an equity research analyst at Merrill Lynch and ABN Amro. Before beginning his investment career, Joe was an Infantry officer in the U.S. Army. Joe holds a BS from the U.S. Military Academy at West Point and an MBA from the University of Chicago. He is both a Chartered Financial Analyst (CFA) and a Chartered Market Technician (CMT).



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Frederick has over 30 years of experience in the investment management industry. Prior to joining NovaPoint, Frederick was a Partner and Investment Advisor at Brightworth where he advised high net worth investors. Frederick began his investment career in 1991 at Balentine & Co where he rose to Partner. He also co-founded and served as Chief Investment Officer at Wright Investment Management and at Smith & Howard Wealth Management . Prior to beginning his investment career, Frederick served as an Engineer officer in the U.S. Army. He holds a BS from the U.S. Military Academy at West Point and an MBA from Emory University. Frederick is a Chartered Financial Analyst (CFA).

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