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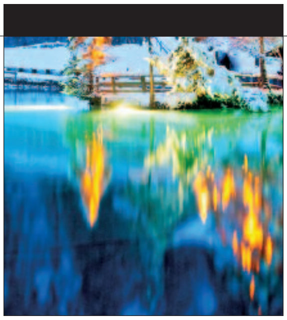

Doing Great by Doing Good: How Advisors Can Encourage Charitable Giving

Practitioners can help clients ensure their charitable giving makes the most impact for the charities and the clients with intentional education.

GREG GAGNE

We give because we can and we give because we should, but we should also enjoy the various tax benefits that come along with being charitably inclined. In 2020, Americans gave $471.44 billion to charitable foundations – a 5.1% increase from 2019 – with the largest source of donations coming from individuals.[1] As advisors, educating clients on the tax benefits of charitable giving and how they can do so in a way that benefits both the community around them as well as themselves is part of the job.

Thorough Estate and Portfolio Evaluations Are Key to Determine a Client's Giving Capabilities

Whether introducing the idea of charitable giving to a client for the first time or working with a client who routinely gives, the question of *"How much can I realistically give?"* is many people's first query. As a way of quelling client fears about how much they can give, the author suggests fully evaluating their situation and considering things like spending habits and legacy goals to determine how much they can comfortably give. Then, run a financial model to visually show all their current expenses, including the added expenses of making planned gifts, and financial goals, and then present the client with recommendations on what they can realistically give.

While the amount of charitable donation depends on many factors, such as the size of a client's portfolio and their attitudes towards giving, the author typically encourages clients to give 10% of their income to planned giving each year. By showing them not only the impact their donation can make, but also the significant taxation benefits they would receive, clients are more inclined to give.

While 10% is a good benchmark, it is not a hard-and-fast rule. As a client's portfolio grows, ideally so should their planned giving. The author encourages all advisors at the firm to routinely assess their clients' planned giving strategy each year to determine if it should be increased. Often, clients are in the giving mindset of when their portfolio was significantly smaller and aren't proportionately giving as their assets grow.

The Do's and Don'ts of Choosing a Charitable Foundation

It is all too common for individuals to think they are giving in a tax-advantaged way, only to find out later that their contributions were not eligible. With over 1.54 million charitable organizations in the

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United States, individuals have an endless array of charities to choose from.[2] As advisors, it is important to stay agnostic in helping clients pick the charity of their choice to avoid imposing opinions and biases on their selection. However, advisors should play a role in ensuring the charity of the client's choosing is eligible for taxation benefits, so they receive the most out of their giving.

The following options are *not* eligible for tax deductions and should be made clear to clients before they embark on their charity selection process:

- Monetary gifts to children
- GoFundMe campaigns
- Political candidates
- Select private/civic foundations
- Charities marked as 501(c)(4) (the only exception to this rule is in regards to trade or business expenses[3])

While the above are the most common non-tax-deductible options, the author always encourages my clients to use Charity Navigator – a website that allows users to not only explore charities in their interest areas, but confirms whether or not they are eligible for a tax deduction.[4]

Tax-Advantaged Giving Strategies Vary by Age

There is no one-size-fits-all approach when it comes to charitable giving and advisors should be well-versed in a variety of strategies to ensure the maximum benefit of their client's planned giving.

For clients who are over the age of 70 1/2 years and own an IRA, consider a QCD (Qualified Charitable Donation) which allows them to remove money tax-free from their retirement account and donate it to a qualifying 501(c)(3) charity of their choosing. In addition to being removed tax-free, this also counts toward their required minimum distribution, commencing at the age of 72 under the Secure Act, which requires individuals to take distributions out of their IRA. Since many individuals are now unable to itemize their donations due to the Trump administration significantly raising the standard deduction, this is a great alternative for clients of qualifying age to continue their charitable donations while also lowering their federal taxable income.

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For individuals of any age, there are two main ways they can give in a tax-advantaged way: donor-advised funds and gifting stock. Under a donor-advised fund, individuals can make an irrevocable donation to a charity. Lumping several years of planned giving into one year will drive the gift amount to a level where the client should be able to exceed the standard deduction and itemize for the year of the gift. By doing so, this will move individuals out of the standard deduction for that year and allow them to itemize their contribution. While this strategy does not permit individuals to itemize every single year, it does provide them with the opportunity to itemize for at least one year of their planned giving schedule versus none.

Additionally, individuals of any age can choose to gift stock to a charity of their choice. It is important to help the client choose a stock that is low basis, high value for the best outcome. For a fun planning opportunity using this strategy, clients may choose a few promising stocks at the beginning of each year to invest into. Throughout the year, monitor the stock and plan to donate it once it has reached its hoped-for objective. Otherwise, gift a legacy position to accomplish the outcome of low basis and high value.

For example, a client might invest $10,000 into a stock at the beginning of the year, but by the end of the year the stock's value has reached $20,000. At this point, donate the stock to the charity for the $20,000 value while the client receives a $20,000 tax deduction despite only investing $10,000 of their own money. Though this tactic carries a moderate amount of risk if the stock does not perform as expected, it is a great way for individuals to donate a sizable amount to charity, even if their current portfolio does not allow them to contribute as much as they'd like.

Lastly, individuals who have an IRA account have the option to assign a charity as their beneficiary once they pass. Unlike assigning a person as the beneficiary, the funds from the retirement account can be inherited tax-free when donating it to a charitable organization.

1 National Philanthropic Trust Charitable Giving Statistics, available at https://www.nptrust.org/philanthropic-resources/charitable-giving-statistics/

2 Id.

3 See https://www.irs.gov/charities-non-profits/other-non-profits/donations-to-section-501c4-organizations

4 https://www.charitynavigator.org/

Common Giving Mistakes and How Advisors Can Avoid Them

Navigating the world of charitable giving can seem daunting and confusing, which can cause clients to either donate without taxation benefits or simply not give at all. Advisor who are not actively engaging clients in conversations about the taxation benefits of charitable giving do a disservice to them.

As mentioned earlier, individuals tend to *think* they are giving in a tax-advantaged way but in reality, are not. Often times, individuals submit a list of expenses to their CPA and believe that these will be itemized on their taxes. However, depending on how they are filing (either single or jointly), they do not reach the minimum and end up defaulting to the standard deduction without their knowledge. By routinely discussing the topic of charitable giving with clients, this type of mistake can easily be avoided, and provide the opportunity to guide them towards an appropriate giving strategy that benefits both their charity and themselves.

Additionally, it is imperative that advisors are regularly evaluating their clients' portfolios to find areas where they can give more. It is common for clients and advisors to "set it and forget it" when it comes to charitable donations, but it is the advisor's job to present them with areas of growth as their portfolio expands, as well as confirm that their charities are still aligned with their passions and values.

How Charitable Giving Strengthens the Client-Advisor Relationship

The power of charitable giving and the impact it has on our communities is clear, but it also plays a role in developing a well-rounded firm and establishing strong client-advisor relationships.

At the author's firm, there is a goal of giving $100 million to the communities clients live in to create lasting impact with both clients and the charities they support. With this goal in mind, advisors are not only more inclined to converse with their clients about their charitable giving aspirations, but they also become stronger financial advisors by being able to speak to a variety of giving strategies. It also serves as an opportunity to get to know clients on a personal level.

By taking an interest in clients' charitable goals, the advisor will cultivate a level of trust and strengthen the client-advisor bond. Clients will recognize that the advisor cares about them not only as a client, but as a person with unique passions, values, and ambitions.

Initiating Client Conversations About Charitable Giving

Though there is no tried-and-true method to always securing charitable giving with clients, there are a few ways to approach the topic. For those seeking to bring discussions of charitable giving to the forefront, here are three main pieces of advice:

1. Introduce the idea of charitable giving early in the relationship. It is much harder to secure buy-in from clients if the topic is approached years down the line once they are already set in their routine.
2. Start small. Even if they can give more initially, it is best to start them off small to minimize any fears they may have about charitable giving.
3. Show them the tax rewards they have achieved based on their giving and educate them on how these rewards can grow based on increasing their giving. ■