Vanilla

A Guide to Charitable Giving Strategies

Courtesy of Vanilla, The Estate Advisory Platform

In 2023, Americans gave a whopping $557.16 billion to charities*

And that doesn't account for gifts to family and friends outside of official charity organizations. Simply put, gifting is a huge part of our economy.

*according to the Giving USA 2023 Annual Report

People choose to give for a variety of reasons, but there are two primary drivers that gifting has become such an important part of people's lives (and their financial plans). The first is altruism. Humans are a cooperative species–it's our super power–and many people give because they want to help others. There's plenty of research to suggest that giving actually has positive effects on our mental and physical health.

In addition to this spirit of good will that sparks some to give, there are also income and estate tax benefits to giving. Generally speaking, each dollar donated to a qualified charity in a year can reduce a taxpayer's income for that year by the same amount, up to 30% of adjusted gross income for non-cash assets and 60% for cash. So for someone in the top federal tax bracket paying 37% income tax, a $10,000 donation saves $3,700 in taxes. Taxpayers get to reduce their income tax and support the causes they love.

Making lifetime gifts is also one of the most common, tried-and-true strategies to reduce estate tax liability. With estate tax ranging from 18-40% over the $13.99 million per taxpayer threshold in 2025, there's a lot of incentive to lower the tax burden.

There's more than one kind of gifting, however, and each type of gift or charitable strategy has a different set of requirements. Some gifts and donations are income tax deductible, while others are not, and subject to gift tax. We'll walk you through the major types of charitable and non-charitable gifts that you might want to consider, as this year draws to an end.

Quick Tip

Appreciated Assets

When choosing assets to fund gifts, you may want to consider securities that you have held for more than a year which have appreciated since their initial purchase. This will maximize the value transferred and minimize your capital gains tax exposure.

Sources:

IRS, *Charitable Contribution Deductions*, https://www.irs.gov/charities-non-profits/charitable-organizations/charitable-contribution-deductions (accessed Jan. 1, 2025).
Rev. Proc. 2024-40, available at https://www.irs.gov/pub/irs-drop/rp-24-40.pdf (accessed Jan. 1, 2025).

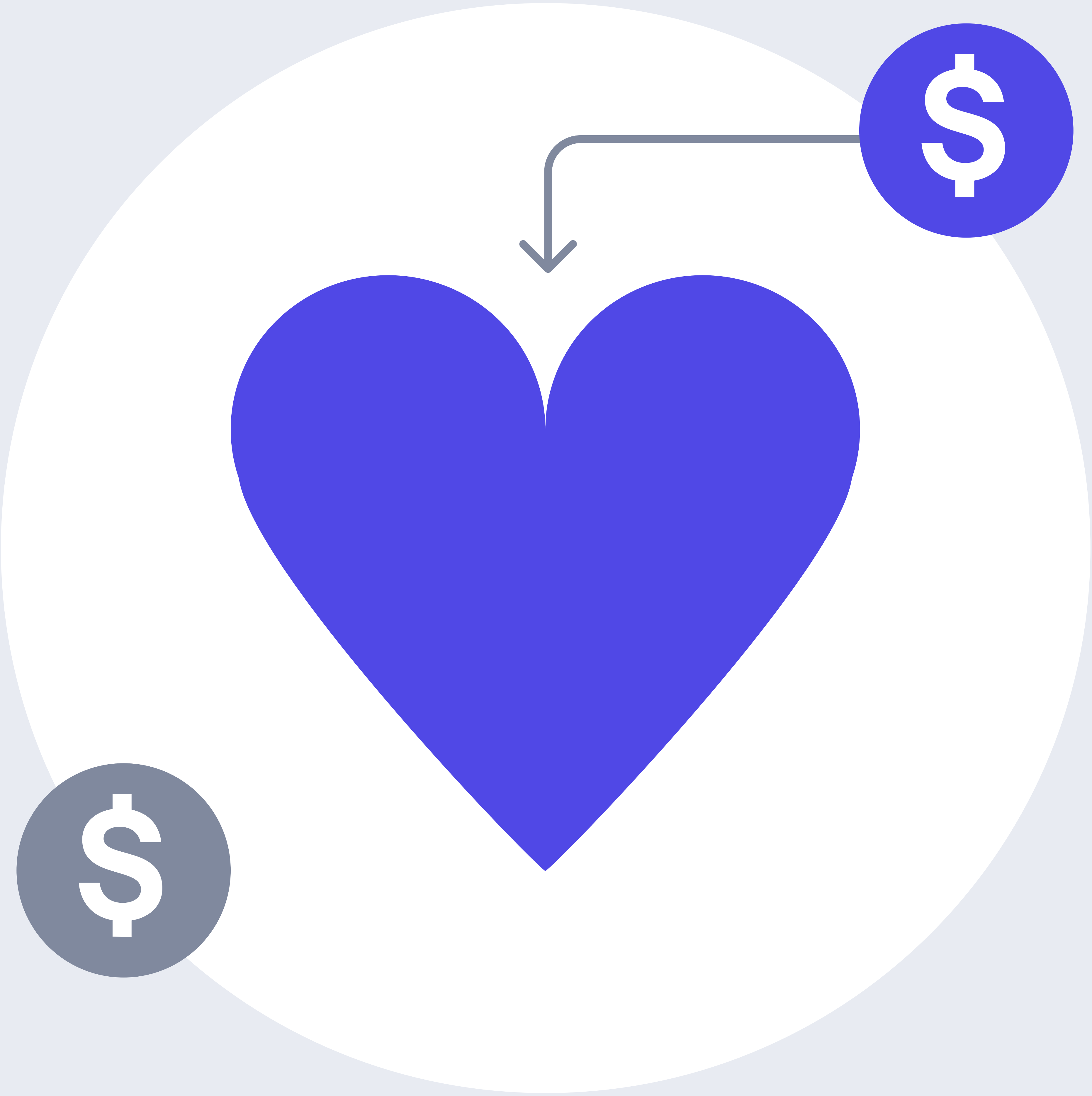
Charitable Giving

One of the biggest debates when it comes to charitable giving is whether to donate to a charity directly, or a donor-advised fund (DAF). There are advantages to both, however.

The DAF allows the donor to make an immediate charitable gift to the fund (and realize the income tax deduction), while also retaining control over the timing and amount of grants to the ultimate charitable organizations that the donor wishes to support. The DAF also allows donors to gift assets such as stocks without having to sell them and deal with the capital gains tax or reporting to the IRS.

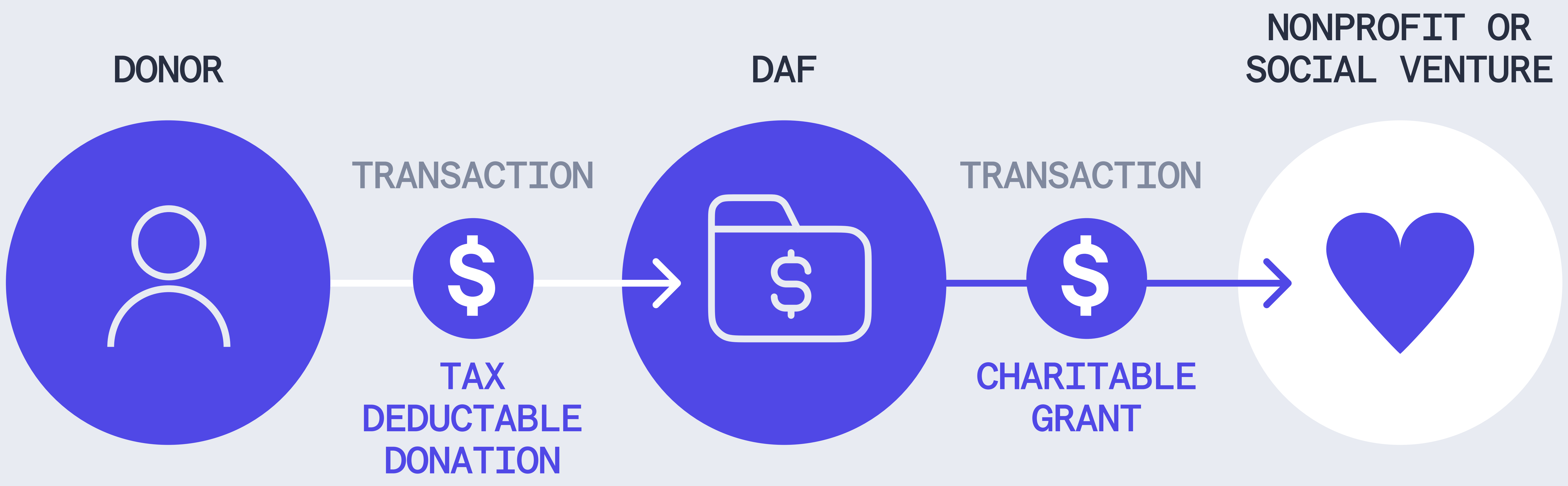
Direct Gifting

Giving directly to a qualified charitable organization enables the donor to receive an income tax deduction (as well as lowering their overall taxable estate). However, if the donor liquidates assets, such as stocks, they are responsible for taxes related to the capital gains. The donor is also responsible for the records and reporting to the IRS.



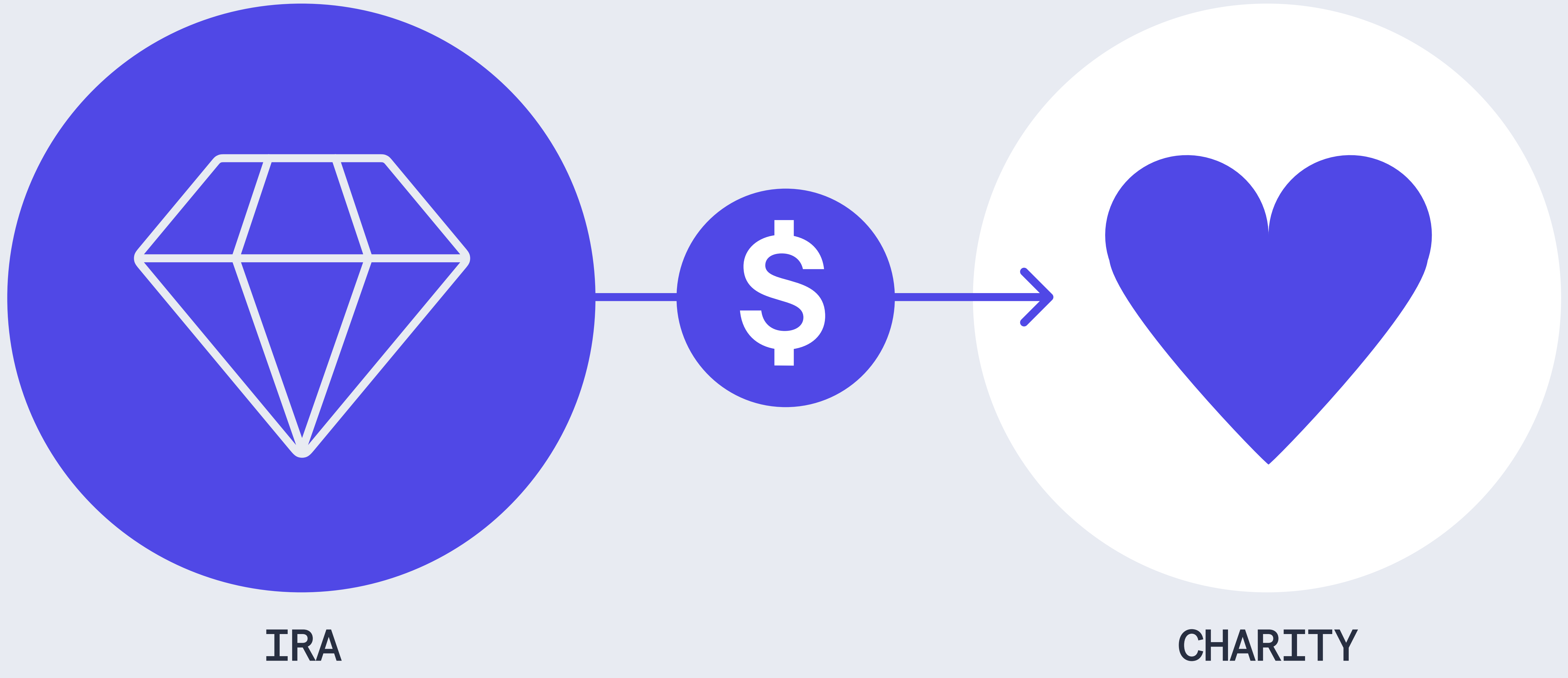
Donor–Advised Funds (DAF)

Donor-advised funds are typically operated by 501(c)③ organizations (called "sponsoring organizations"), and allow multiple parties to contribute to the fund or account. Once a donation has been made, though, the organization has legal control over it. The donor (or their representative) will retain advisory rights, however, and grant recommendations are generally followed. DAFs allow donors to receive an immediate tax deduction without having to choose which charity the assets will go to, and shift responsibility of reporting to the IRS to the sponsoring organization.



Qualified Charitable Distribution (QCD)

A qualified charitable distribution allows those who are 70 ½ or older to make charitable contributions of up to $108,000 from a traditional IRA. A QCD can satisfy a required minimum distribution (in whole or in part). This is an income tax-efficient technique that also reduces a person's estate for estate tax purposes. Note: SEPs and SIMPLE IRAs are not eligible for the QCD.



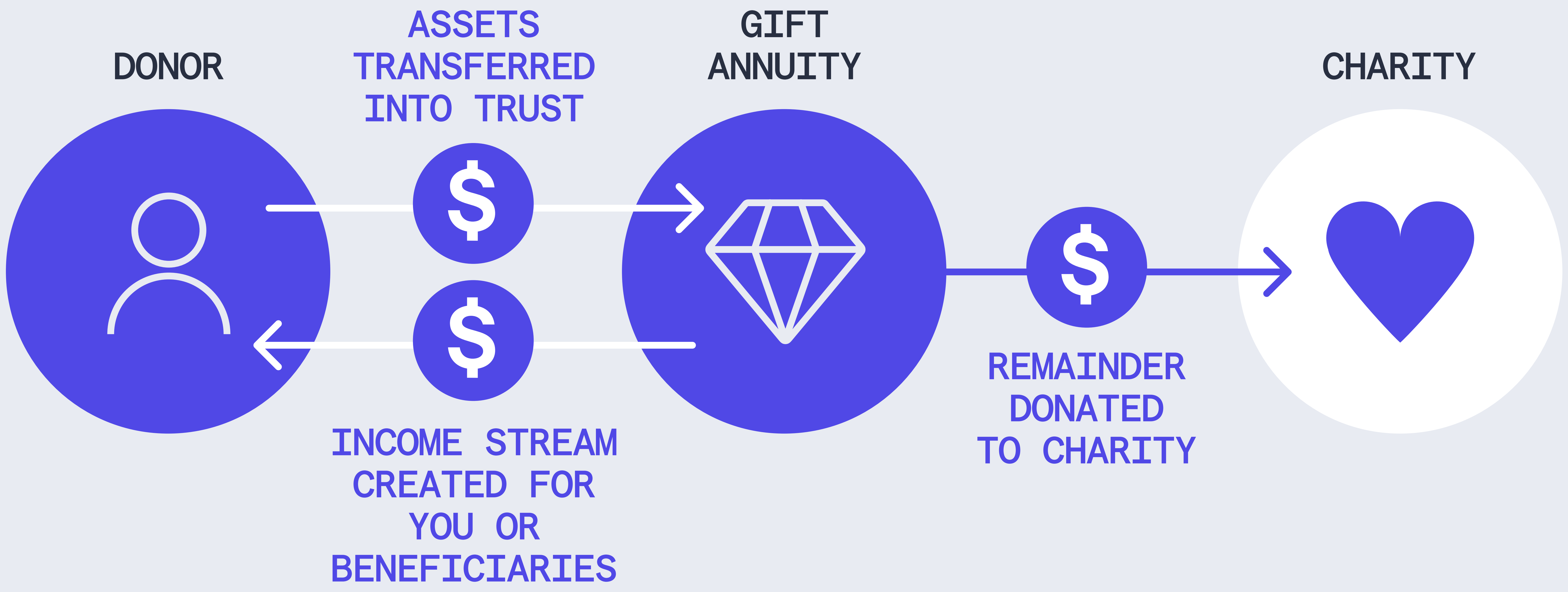
Source:

IRS, *Notice 2024-80*, https://www.irs.gov/pub/irs-drop/n-24-80.pdf (accessed Jan. 1, 2025)

Charitable Gift Annuity

The donor gives assets or cash to a sponsoring charity, and the charity then pays the donor an annuity payment. When the donor dies, the charity retains whatever is left over. This strategy is sometimes used instead of a charitable remainder trust if the amount of the donation is insufficient to warrant a charitable remainder trust.

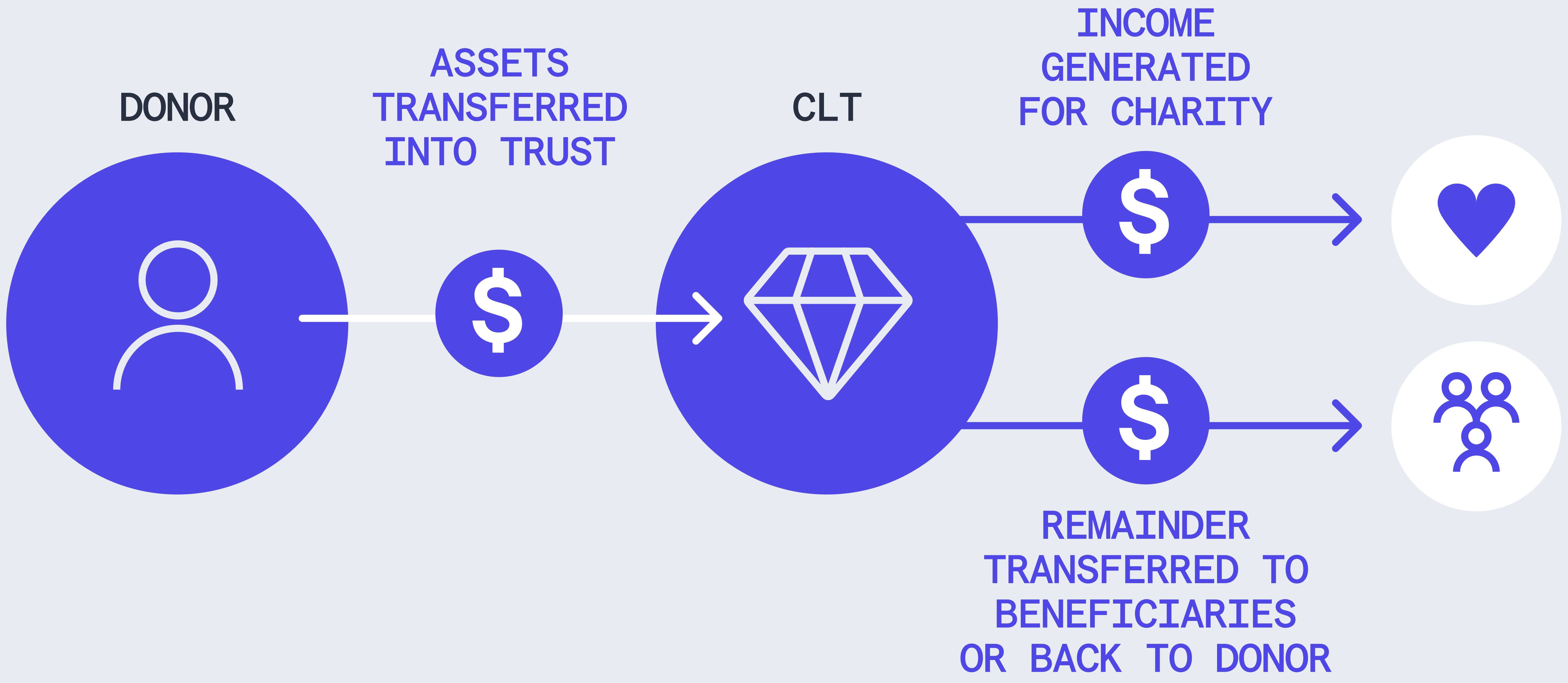
A charitable gift annuity is established with a single charity, so it can't support multiple causes at once. The size of the annuity payment is based on numerous factors, including age of donor.
There is an immediate tax deduction, but annuity payments are often less than what is available from commercial annuity products.



Charitable Lead Trust (CLT)

A charitable lead trust (CLT) is a type of trust established by an individual to provide regular payments to one or more charities for a specified period.

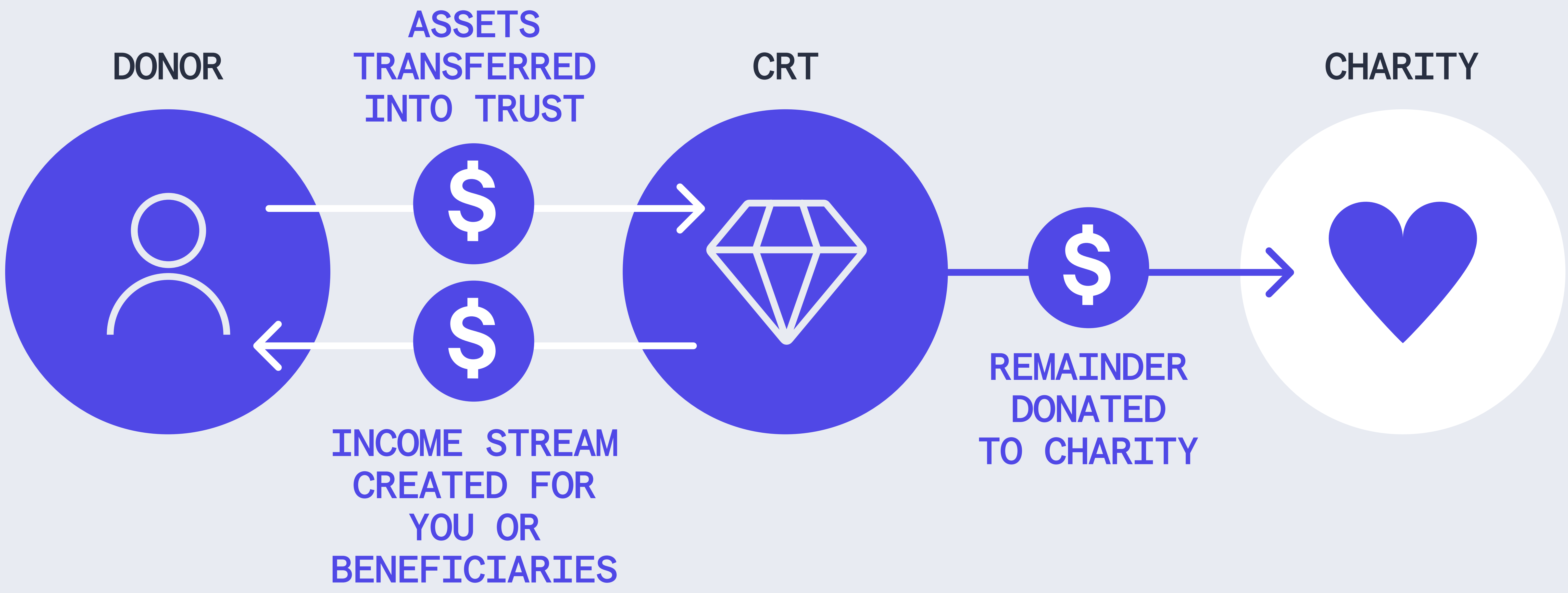
At the end of that period, the remaining assets in the trust either revert to the settlor or pass to non-charitable beneficiaries, such as family members or other individuals named by the donor. In a charitable lead trust, the charity has a primary or “lead” interest in the trust assets before anything is passed down to other beneficiaries.



Charitable Remainder Trust (CRT)

The donor funds the CRT with certain assets, and the donor or other non-charitable beneficiaries, such as the family members or other individual named by the donor, is entitled to draw an annual payment over the lifetime of the trust. When the income recipient dies (or the trust term ends), anything that remains in the trust immediately goes to a charity.

The ultimate amount that the charity will receive will depend on how much the assets inside the CRT have appreciated, the payments to the donor over the trust term, and, in some cases, how long the donor lives.



Private Foundations

The donor contributes money or assets to the private foundation. The foundation then uses this endowment to operate charitable programs or make grants to other charities. It's important to remember, many records and tax returns are public when giving to private foundations. It also requires an annual federal and often state filing. The foundation must distribute a minimum percentage (typically 5%) to charitable causes or organizations, so it can't endlessly accumulate. Strict regulations over business relationships with the donor and donor's family must be observed to avoid penalties.