Vanilla

A Guide to Non-Charitable Giving

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).

Non–charitable giving

There are many types of giving that are considered "non-charitable," but can still have a big impact on a taxable estate – as well as on those people or organizations the assets are given to. Next, is a rundown of some of the most common types of non-charitable giving, and what you need to keep in mind for each.

Federal annual gift exclusion

Every year, each person can give a certain amount to a non-charitable donee without triggering the federal gift tax. In 2025, individuals can give $19,000 (spouses can jointly give $38,000). The cap is per recipient, meaning you can give $19k gifts to multiple recipients without triggering a gift tax. These non-charitable gifts will reduce your taxable estate, but will not impact your yearly taxable income in the form of a deduction.

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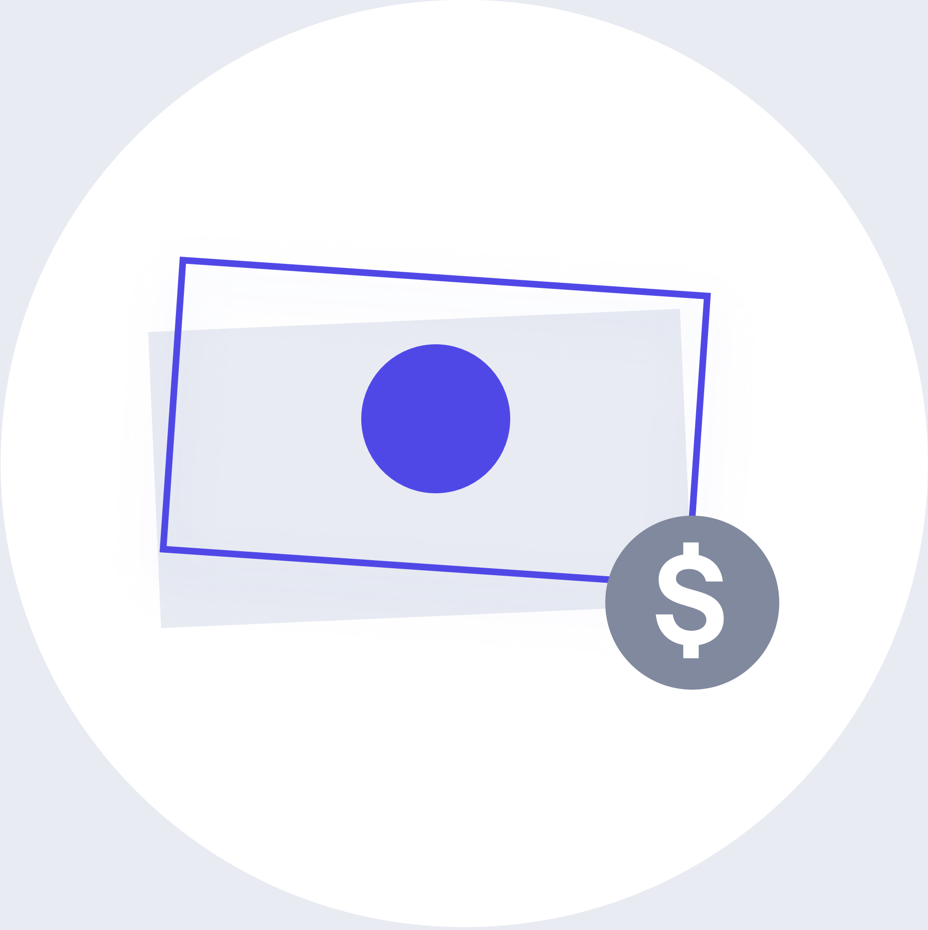
Rev. Proc. 2024-40, available at https://www.irs.gov/pub/irs-drop/rp-24-40.pdf (accessed Jan. 1, 2025).

Lifetime gifting exemption

In addition to the annual gift exclusion, every individual is able to give a cumulative amount up to $13.99 million in 2025, free of the federal gift and estate tax. This is on top of the annual gift exclusion, meaning that if, for example, someone gives $25,000 in 2025, he or she could cover $19,000 with their annual gift exclusion and use their lifetime exemption to cover the other $6,000 (provided it had not been used up) and still not pay any gift tax. The maximum federal gift and estate tax rate is currently 40%.



Qualified education and medical expenses

There is no limit to the amount an individual can contribute, tax-free to qualified education expenses. This includes "amounts paid for tuition, fees and other related expenses for an eligible student that are required for enrollment or attendance at an eligible educational institution." A similar rule applies for qualified medical expenses. When structured properly, direct payments of education and medical expenses allow support for family members that can far exceed the annual gift exclusion amount. These expenses cannot be deducted in respect to yearly income tax, but will reduce the total estate without consuming exemption.

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Rev. Proc. 2024-40, available at https://www.irs.gov/pub/irs-drop/rp-24-40.pdf (accessed Jan. 1, 2025).

529 plan

The qualified tuition program is also known as a 529 plan. It allows the contributor to pay for educational expenses at a qualified institution or to contribute to an account dedicated to paying those expenses. It's limited to the gift cap ($19,000/year in 2025) unless it's part of a superfund. A superfund allows you to make five times the annual gift exclusion, spread over five years (allowing you to invest a larger sum of money, tax deferred, sooner.) Some 529s allow a limited state income tax deduction to the donor, in certain circumstances.

Are 529s worth it?

529s are a promising tax vehicle for many Americans who plan to send their children to college. However, there are circumstances when you want to skip a 529. If, for example, a couple does not have a taxable estate today, but they likely will in the future (especially in lieu of the 2026 exemption sunsetting), it could make sense to pay for the children's college expenses directly (using the qualified education expense) to reduce their taxable estate.

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Non–Charitable Giving to Reduce Estate Taxes

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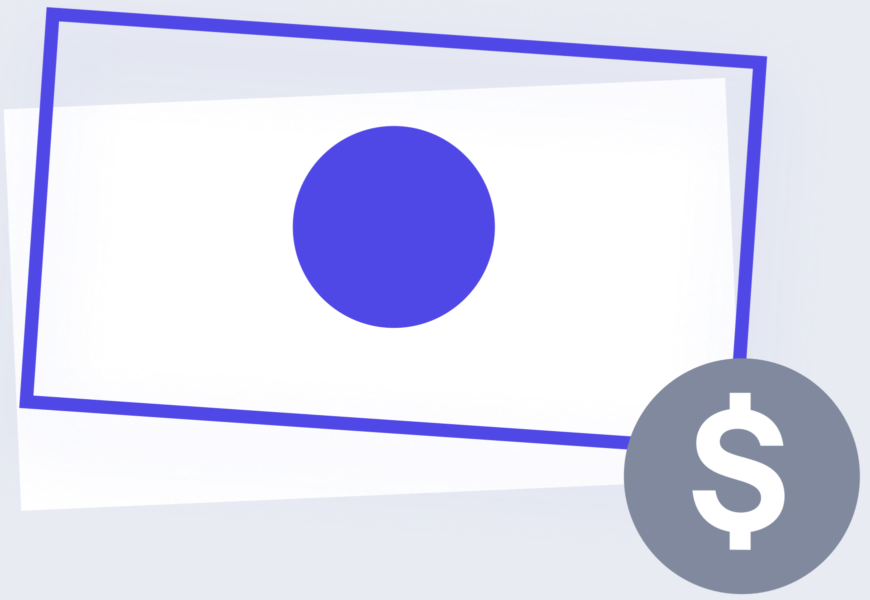

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