Smart Giving

There's more than one way to donate to your favorite charity

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Americans are generous people. In fact, 72 percent of the charitable funds raised in this country come from people like you and me. In 2013, that included more than $241 billion in individual donations.* Most donors still prefer to make these gifts the old-fashioned way: with cash or a check. It's easy to see why. This approach provides maximum flexibility in determining when, where and how much to give. It works whether you are donating a few dollars in a collection basket or are making a multi-million dollar gift to your alma mater. Cash and check gifts are not the only – or best - way to donate. To get the most bang for your charitable buck, including tax advantages, it often pays to consider other options. Among them:

1. Donate stock. If you donate publicly traded stock that has increased in value, you can get a charitable deduction for the full value of the stock and avoid paying any capital gains tax, assuming you've held the stock longer than one year and one day before making the donation. For example, let's say you have 100 shares of stock you purchased 10 years ago for $2,000, and today it's worth $5,000. By giving the stock to charity, you get a $5,000 tax deduction and avoid paying tax on the $3,000 capital gain you would have realized had you sold the stock. But be forewarned: You must give the actual stock to the charity. If you sell it first and donate the proceeds, you won't avoid the capital gain. If you have stock that has lost value, sell the stock and donate the cash to charity. You will benefit both from the capital loss and the charitable deduction.

2. Donate real estate. The same basic rules hold true if you wish to donate property to charity. Real estate donations make the most sense when a property has increased significantly in value over time, requiring the owner to pay a sizeable capital gains tax upon selling it. Property donations are also best when the real estate is relatively easy for the charity to sell or utilize, such as a home. While it's also possible to donate commercial real estate, tenant leases and other legal issues can complicate the transaction.

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3. Give through your IRA. Donating IRA assets offers a number of tax advantages. If you have an IRA, you must generally start taking distributions from it at age 70½ and pay tax on the withdrawals. (Rules for Roth IRAs are different.) Donate your IRA required minimum distribution instead of taking it as income, and the non-profit doesn't pay income tax. While you don't get a tax deduction for your gift, you may be able to avoid higher Medicare premiums and other penalties that come from taking the distribution and increasing your adjusted gross income. There are other factors to consider as well. A professional tax advisor can help you determine if this is a smart alternative for you.

4. Make an in-kind gift. Your donations to charity don't necessarily need to be in the form of dollars and cents. On a small scale, you can receive a tax deduction when you donate clothing and household goods to charities. If you're thinking bigger, many charities accept donations of boats, cars, artwork, stamp or coin collections and other valuable items. To receive the appropriate deduction, you'll need to get larger items appraised prior to making the donation.

5. Give through your estate plan. You don't have to be among the ultra-rich to leave a meaningful legacy when you're gone. In fact, there are relatively easy ways to provide for your family while also making bequests to your favorite causes. Among the simplest is to designate charitable contributions in your will. Similarly, you can designate a charity as the beneficiary of a retirement account, life insurance policy, annuity or other asset. Just be sure that all beneficiaries are listed correctly in all appropriate documents. If you want your church to receive the proceeds from your life insurance, for example, the church should be named as the beneficiary of the policy.

In some cases, you might want to split an asset among heirs and charities. In these cases especially, an advisor's help can be invaluable. If you wish to give $100,000 to charity with the remainder split among your heirs, for example, you could risk leaving your children empty-handed if the value of your estate declines dramatically.

If your contributions are substantial, you may also want to consider establishing your own charitable trust. Depending on the trust you create, you can, for example, arrange to have interest income paid to a designated charity. There are other tools, such as private foundations, charitable lead trusts and charitable remainder trusts, that are better for special circumstances.

The bottom line: there are a number of ways to give charitable donations. Talk with a professional advisor to ensure you choose the charitable giving approach that best fits your needs.

*http://www.nptrust.org/philanthropic-resources/charitable-giving-statistics/

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