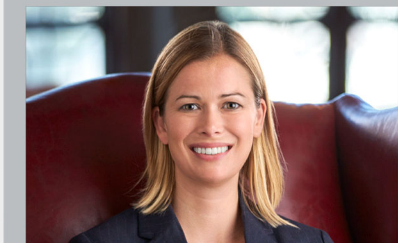
WEALTH COUNCIL INSIGHTS EDUCATION SERIES:

THE FUNDAMENTALS OF CHARITABLE GIVING



SUSAN HAGLEY, MST
Senior Wealth Strategist

Charitable giving is a uniquely personal and fulfilling experience. In recent years there has been a greater emphasis on impactful and highly directed giving to promote a change. Donors are trending toward more tax-efficient gifting as well as leveraging charitable vehicles to maximize their charitable dollars and meet their goals. This article will break down the fundamentals of common options for charitable giving and present a brief summary of the tax deduction rules to provide high level information for more in-depth conversations with your tax and legal advisors.

Gifts of Cash

Cash donations are a simple and effective way to make an immediate impact. This can be accomplished through cash, checks or credit card.

Tax Deduction Rules for Taxpayers who Itemize Deductions

I. Through 2025, gifts of cash to public charities are limited to 60% of your adjusted gross income (AGI) and then revert to 50%. This limitation is reduced to 30% of AGI if gifted to a private foundation.

II. For all charitable gifts, proof must be retained to substantiate the donation. If you donate $250 or more to a single charity, you must obtain written acknowledgment from the charitable organization. For all other donations, you must either retain a bank record or written communication.

Gifts of Marketable Securities

Contributing long-term appreciated marketable securities is a more tax-efficient means of giving. Examples include stocks, bonds or mutual funds that you've held for more than one year. Instead of selling the assets at a capital gain and using the cash for charitable purposes, you can donate securities directly to charity. The public charity can then sell the securities without being subject to capital gains tax. This tax efficiency naturally increases the amount available for charitable purposes.

If a security has declined in value, it's generally more advantageous to sell the asset and recognize the loss to potentially offset other capital gains, and then donate the cash to charity.

Tax Deduction Rules for Taxpayers who Itemize Deductions

I. The deduction is limited to 30% of your adjusted gross income (AGI) and reduced to 20% if gifted to a private foundation.

II. The charitable deduction is generally the full fair market value of the securities.

"Donors are trending toward more tax-efficient gifting as well as leveraging charitable vehicles to maximize their charitable dollars and meet their goals."

Gifts of Non-Publicly Traded Assets

Under certain circumstances, another option is to donate non-publicly traded assets. These more complex assets tend to be the most highly appreciated assets and may have the most potential for continued growth, which may generate even greater tax efficiencies. These may include C Corporation or S Corporation stock, LP or LLC interests, real estate and alternative investments. The gifting of these assets requires more analysis and a qualified appraisal to substantiate the charitable deduction. Another consideration is whether the charity will be able to accept the asset.

The more common non-cash donations include clothing and household goods, artwork, vehicles and real estate. These are typically focused on the charitable organization's mission or need.

Tax Deduction Rules for Taxpayers who Itemize Deductions:

I. In general, the deduction for non-cash gifts is based on the property's current fair market value (limited to basis for non-cash gifts to private foundations).

II. The substantiation requirements apply for non-cash gifts over $500 and a qualified appraisal is required for non-cash gifts over $5,000.

Donor Advised Funds

Rather than giving directly to a particular charity, it often makes sense to consider a specialized charitable giving vehicle. Donor Advised Funds (DAFs) are currently the most popular vehicle

because they are easy to establish and maintain, have low costs and offer the donor flexibility in grantmaking with immediate tax benefits.

DAFs are administered by a third-party sponsoring organization that handles the administrative work. Donors can contribute cash, securities or possibly non-cash assets to their DAF and receive a tax deduction in the same year. Those funds may be invested for tax-free growth and the donor has the flexibility to recommend grants to charity over time. The sponsoring organization is responsible for reviewing all grant requests and must approve any grants before they are made.

Tax Deduction Rules for Taxpayers who Itemize Deductions:

I. Through 2025, gifts of cash to Donor Advised Funds are limited to 60% of your AGI and then revert to 50%. This limitation is reduced to 30% for long-term securities.

Private Foundations

Private foundations are more complex charitable vehicles that are established by a donor or a family. They require many legal and administrative formalities and costs, but also allow for significant donor control and flexibility over investments and grants. A private foundation is a separate legal entity that is run by a Board of Directors, which may include family members.

Private foundations are subject to many legal and administrative formalities. They must file an annual tax return that is available to the public and attests whether or not there was compliance with these formalities. This return reports information including grants and donors, which removes anonymity in making grants. Private foundations are required to make eligible charitable expenditures of at least 5% of the value of the foundation's assets as a minimum payout each year. In addition, private foundations are subject to an annual 1.39% excise tax on net investment income. And to encourage private foundations to fulfill their charitable mission, they are subject to a series of additional excise taxes if certain rules are not followed.

Private foundations are an ideal charitable vehicle to achieve multigenerational philanthropic goals. The high level of formalities and family control may be attractive to families that want to pass on the tradition of charitable giving.

Tax Deduction Rules for Taxpayers who Itemize Deductions:

I. Cash gifts to private foundations are limited to 30% of your AGI and are limited to 20% for long-term securities.

II. The charitable deduction is generally the full fair market value of the securities. However, if they are short-term or non-financial assets, the asset is valued at cost basis.

Charitable Trusts

Charitable trusts allow donors to pass property to both charitable and individual beneficiaries through the same vehicle.

The two main types of charitable trusts are a charitable lead trust and a charitable remainder trust. Both are irrevocable trusts where the donor receives a deduction when the trust is funded. However, they function the reverse of each other. A charitable lead trust makes annual payments to designated charities for a set period of time. At the end of the period, the balance passes to designated non-charity beneficiaries. A charitable remainder trust makes payments to the donor (or someone named by the donor)

> *"Charitable gifting strategies can be used alone or complement each other to meet your goals."*

for a set period of time. At the end of the period, the balance passes to a named charity.

Conclusion

When considering your charitable giving plan, there are many options available that range in complexity and tax effectiveness. Each of the options discussed can be used alone or can complement each other to meet your unique goals. Your Oxford team of advisors partners with you and your tax counsel to select and implement tailored charitable gifting strategies that are in line with your goals.

WEALTH COUNCIL INSIGHTS EDUCATION SERIES

ABOUT THE SERIES

In the Wealth Council Insights Education Series, we endeavor to deconstruct some of the complexities that exist around many commonly utilized estate and financial planning concepts in order to provide you and your family with the basic knowledge needed to better understand and create a blueprint for your overall wealth enhancement needs.