Why you give to charities

floridatoday.com/story/money/business/2017/12/11/give-charities/108509464/

Steven Podnos Published 11:11 a.m. ET Dec. 11, 2017

CONNECTTWEETLINKEDINEMAILMORE

QUESTION: I have heard that I can give money to charity and then get some income back?

Podnos: Ultimately, making charitable gifts has two possible results. Doing so almost always results in lower taxes through charitable deductions. But many charitable gifts can also provide an income stream. Just how you want the income stream designed is what adds some complexity to the process.

For example, you can have the charity itself pay you an income (called a Charitable Gift Annuity). Or, you can have your gift pooled with others in order to decrease the risk that the Charity can't pay in the future (Pooled Income Fund). You can even have the gift itself stay segregated and provide its own income (Charitable Remainder Trust). These different options for income also come with flexibility as to when income starts, how much it can change over time, and how long it persists.

As to tax reduction benefits, outright cash gifts are the simplest to understand. Such a gift allows a deduction against the donor's highest marginal tax bracket. For example, someone paying 35% of income would avoid that amount of tax on a cash donation. In effect, a gift of $100 comes as $65 from the taxpayer and $35 from the government.

Donating appreciated assets such as stock is even more tax efficient. For example, take $100 of stock at current market value that was purchased for only $10 many years ago. If the stock is sold, a capital gains tax on the $90 gain would eat up as much as $20. This would leave only $80 for a charitable donation. If instead, the appreciated stock is donated directly, the full $100 current market value is deducted, increasing the tax benefit to the donor significantly. Also note that gifts of appreciated assets end up generating much more income than if the asset were sold to provide the gift. The donor would get income based on the full market value of the appreciated asset rather than the "after" capital gains tax amount.

The effect of taxes on affluent families can be substantial. For example, a bequest to grandchildren in New York state would be taxed at the state level, the estate tax level, and the generation skipping trust level-taking well over half of the gift for the government. Gifting the total amount in a tax efficient way benefits the charity and may in fact produce significantly more net money to the grandchildren.

If your charitable gift is other than cash, note that there may be some complexity in the gift's valuation and also some limits on how large the gift can be in any given year. It is strongly recommended that significant gifts be reviewed in advance by an experienced accountant and financial advisor. Although some limitations allow non deductible amounts to carried forward for future years, this is not always the case. In addition, both the character of the non cash gift as well as its use by the charitable recipient may influence the tax treatment of the gift.

Steven Podnos MD CFP is a fee-only planner in Brevard County. He can be reached at wealthcarellc.com or Steven@wealthcarellc.com.