Philanthropy for the Rest of Us – Smarter Annual Giving

You may not be in Bill Gates' league, but you do pride yourself on being a loyal supporter of one or more important philanthropic causes. You may have started a small number of years ago, but now you've budgeted several thousands of dollars annually to support your favorite organizations. Likely, you donate at the organization's website via credit card or you send a check from your primary bank account. You may have set up a separate account to receive regular contributions with which you fund your donations.

All of this is commendable, but it may not be the wisest approach to giving when you consider how this impacts your personal finances. I believe it is important that you look for two tax savings opportunities for each donation rather than just one, since all such contributions are generally deductible against other income when filing your taxes, assuming they exceed the standard deduction amount for you. So, how do you gain a second tax benefit for the same valued contribution? I'm glad you asked.

Rather than cash, if you donate appreciated securities (stocks, bonds, mutual funds, etc.) for the same amount to a qualifying charity, there will be no recognition of the capital gain on the asset. For example, giving away a security worth $25,000 with a cost basis of $10,000 avoids the recognition, someday, of the $15,000 capital gain (or perhaps greater if it were to continue to appreciate with time). That donation avoided a tax of around $3,000 and still generated the $25,000 deduction against other income as described above. Now, we've earned two tax savings rather than just one. If we then take the cash we were planning on gifting and buy the same security to replace it, our portfolio is still intact with now a higher cost basis that is designed to minimize future capital gains taxes when it is sold *(a third tax benefit?)*.

You may think this sounds great, but this might be cumbersome for each organization you support. After all, you need to transfer the securities from your investment account to that of each organization you're giving to in order to implement this approach. Each $2,000 or $5,000 gift, assuming you donate to several organizations annually, might entail a good deal of work in coordinating the gift from your brokerage account to that of the organization. Rather than this cumbersome process, consider establishing a Stifel Donor-Advised Fund (DAF) and transferring the security (or securities) to it all at once. The Stifel DAF will sell the securities without capital gains tax and hold the proceeds awaiting your gift instructions to complete the donations to each organization you support. This has greatly reduced your work to gain the same tax benefits.

If your annual giving is generally similar to the standard deduction provided under the tax code (consult your tax advisor), you may not be gaining any additional tax savings while making these annual gifts. If this is true, consider "bunching" your annual gifts through your Stifel DAF. With this approach, you plan several years' gifts in advance (e.g., three years X $20,000 per year = $60,000). You then contribute the appreciated securities of this value ($60,000) at one time to your Stifel DAF, which creates the larger deduction for the year and resultant tax savings. You then use your Stifel DAF to make the contributions you planned on over the next three years.

The combination of the Stifel DAF and using appreciated securities for your gifting is a much smarter tax saving strategy than simply gifting cash each year while not adversely affecting your personal financial picture.

Now, that is much smarter *Philanthropy for the Rest of Us*.