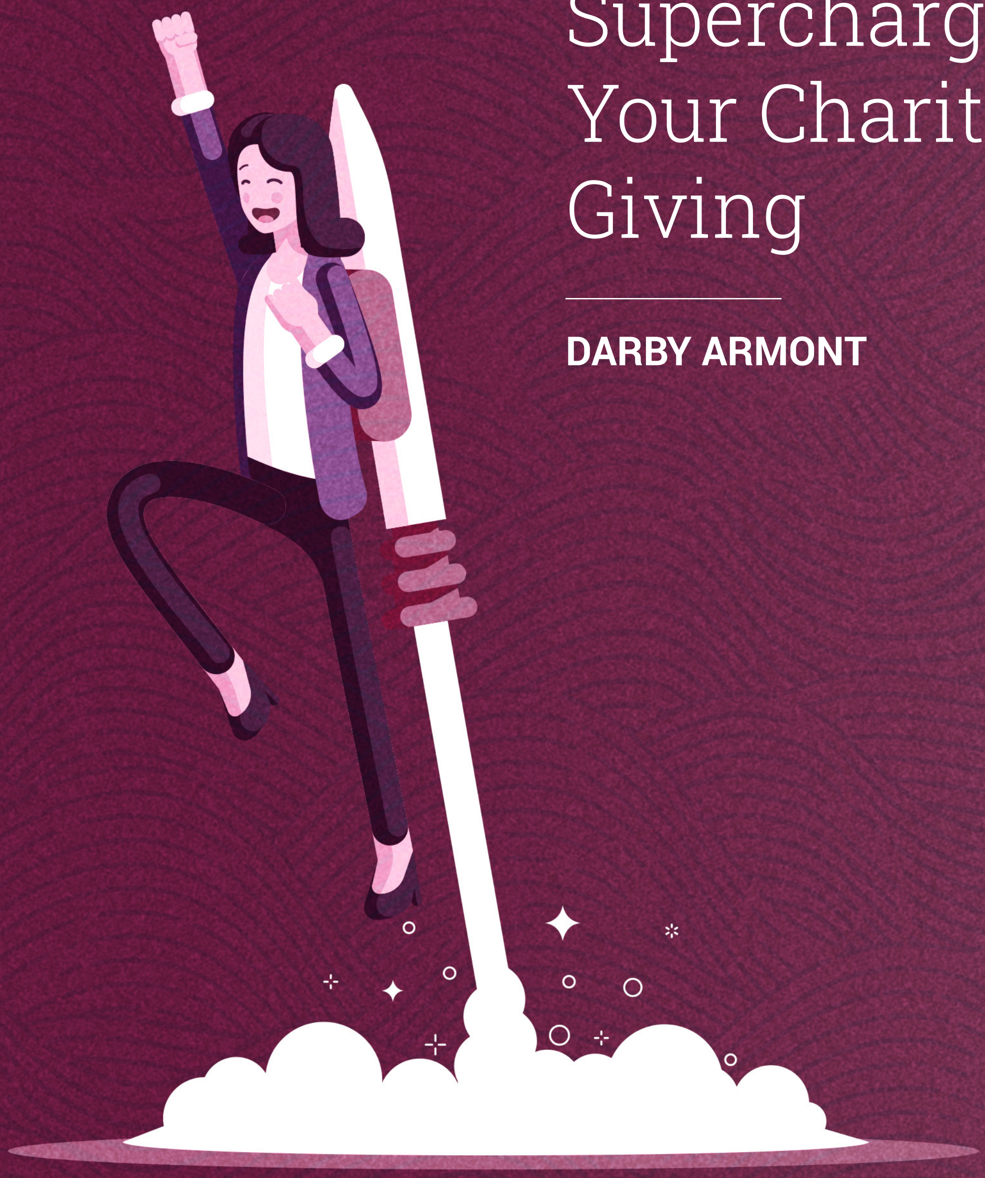
ON COURSE

How To Supercharge Your Charitable Giving



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How To Supercharge Your Charitable Giving

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> **Giving back is a common and noble gesture that is fairly well engrained throughout much of our society. However, as many people go through their careers — particularly wealthy people — the habits for giving often never change.** Writing checks or charging credit cards are always appreciated by the beneficiaries, but there are more efficient ways to support your favorite causes that will better benefit both you and the charity.

When making large contributions, timing can be one of the most important variables to consider.

Many people make the same contributions year-after-year without necessarily considering each year's income. In some years, you may experience a lower overall income. Whereas in other years you might sell a property or receive a large bonus or stock grant. Whenever you can predict a higher total income (even on paper), let your advisor know so that more efficient gift planning can be done. This includes making charitable contributions as well as harvesting losses on your investment accounts.

Another trend we've observed is people that are simply too busy to think about charitable contributions during their working years. When they retire, they become more focused on making a difference through major donations.

While this calling is admirable, a better strategy would have been to maximize contributions during high-income working years. There are many planning scenarios that can be deployed, and each can have a significant impact on the deposits made during high-income years versus low-income years.

Lastly, some people use a method informally called "bunching" their itemized deductions. Because the standard deduction is much higher than it was previously, and there is a limitation on how much in property and sales tax people can deduct, many people no longer itemize. However, in some states (including Texas), you can choose when to make your property tax payments (December or January).

With some planning, you can "bunch" your deductions every other year. For example, in "year one" you pay your current-year property taxes in January and then pay the following year's property taxes 11 months later (in December). In the same year, you also make a larger charitable contribution. Combined, these contributions exceed the standard deduction allowing you to itemize your taxes. In "year two", you would pay no property taxes and make minimal charitable deductions which would lead to taking the standard deduction. In "year three," the process starts all over.

It's important to keep in mind that everyone's tax situation is unique, and we recommend working closely with your financial advisor and tax advisor as a team to determine what is optimal for you and your goals. That said, here are some other strategies to consider.

Those over the age of 70.5 may want to look into **Qualified Charitable Distributions** (QCD) – formerly known as the "IRA charitable rollover" – which is now a permanent part of the U.S. tax code. In the past, this was linked to the Required Minimum Distribution (RMD) age, but recent legislation pushed RMDs out to age 72 but did not change the QCD age.

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QCDs take funds directly from your IRA and contribute them to a nonprofit. Since you do not take possession of the funds, you do not have to recognize the income on your 1040, which can help with income-tested levels like Medicare premiums (the dreaded IRMAA) or higher capital gains tax rates. You also do not deduct the contribution.

For convenience, you can use a checkbook to make these contributions. However, always let your advisor know if you write a check from your IRA so that sufficient funds in the account can be confirmed.

Another advantage of QCDs is that you can benefit from this strategy regardless of whether you are "bunching" deductions (as described above) since these contributions bypass both the income and deduction sections of your tax return.

You can make a combined QCD of up to $100,000 per year from all your IRAs, and your spouse can do the same. The transfers also count towards your required minimum distribution.

One thing to keep in mind with the QCDs… to get credit

ABOUT RICHARD P. SLAUGHTER ASSOCIATES, INC.

Richard P. Slaughter Associates is a leading wealth-management firm specializing in delivering tailored strategies as a fiduciary for high net worth individuals, families, and businesses. Slaughter Associates constructs a comprehensive financial relationship with its clients by delivering expertise in financial planning and asset management while coordinating with tax, insurance and estate professionals. The result is a holistic approach—unique in the financial industry—that generates a clear path to the individual financial goals of the client. Founded in 1991 in Austin, Texas, Slaughter Associates was among the first fee-only firms in the nation, a fiduciary status that allows it the freedom to provide advice that is always in the best interests of the client. Slaughter Associates is a NABCAP Premier Advisor, recognized for its commitment to maintaining top business standards, first-class financial-management capabilities and dedication to preserving transparency in the financial services industry.

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for a tax year, the check must be cashed by December 31st, so we recommend getting checks to charities by mid-December at the latest.

Donor-Advised Funds (DAF) are another powerful tool that can help some with a double-tax benefit. DAFs are public charities set up by institutions such as Charles Schwab or Fidelity, or even local organizations such as community foundations.

Here's how it works. You can transfer appreciated stock from a taxable account (must be a long-term gain) directly to the DAF and receive a deduction equivalent to the market value of the stock at the time of the transfer. This allows you to avoid capital gains tax by selling the security, plus you have just made a charitable contribution.

When you're ready to contribute to your preferred nonprofit, you recommend a "grant" to the DAF. The fund confirms that the charity is legitimate and then cuts a check directly to the organization. This is helpful for the charity since they do not have to deal with stock or other non-cash gifts.

The funds can be invested in a DAF, either conservatively if you're planning on granting out the majority of the balance within a short period, or more aggressively if you're planning on granting over a longer timeframe.

One of the primary advantages of the DAF is that you can separate the tax deduction from the actual cash flow to the charity. This is important to many clients because their contributions, especially to smaller charities, could impact an organization's budget negatively if the incoming cash varied drastically from fiscal year to fiscal year.

Using a DAF allows you to make larger contributions in a "bunching" or a high-income year, and lower contributions in other years. But you can make regular monthly, quarterly or annual grants to your nonprofit at the same level each year. Like QCDs, we recommend opening and funding DAFs well before the end of the year to ensure transfers are complete before Dec. 31.

Both QCDs and DAFs are great ways to supercharge the impact of your charitable giving. Please let us know if you would like to see how these options would work with your financial plan.

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