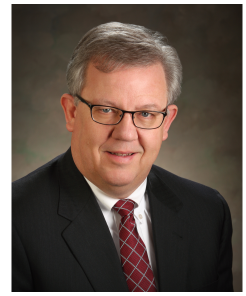
Endowment Wealth Management, Inc.
Robert Riedl, CPA, CFP, AWMA®
CEO & Director of Wealth Management
W6272 Communication Ct.
Appleton, WI 54914
920-785-6010 x6011
Rob@EndowmentWM.com
www.EndowmentWM.com



Tis the Season for Tax-Friendly Giving Strategies

With so many nonprofit organizations seeking financial support, you may want to direct your money where it can do the most good.

You may donate money to charitable organizations throughout the year, for no other reason than your heart-felt desire to support causes that you care about. But if philanthropy is important to you, keep in mind that the associated tax breaks could potentially increase your ability to give. You might consider a more strategic approach to charitable giving, possibly as part of your year-end tax planning.

You can generally deduct charitable contributions, which reduces your taxable income, only if you itemize deductions on your federal income tax return. The deduction is currently limited to 60% of your adjusted gross income (AGI) for cash contributions to public charities. Otherwise, limits of 50%, 30%, or 20% of AGI may apply, depending on the type of property you give and the type of organization to which you contribute. (Excess amounts can be carried over for up to five years.)

If you claim a charitable deduction for a contribution of cash, a check, or other monetary gift, you should maintain a record such as a cancelled check, a bank statement, or a receipt or letter from the charity showing the name of the charitable organization and the date and amount of the contribution. Donations of $250 or more must be substantiated with a contemporaneous written acknowledgment from the charity. Additional requirements apply to noncash contributions.

Here are some strategies that may help enhance your charitable impact as well as your tax savings.

Bunch or time gifts and deductions

The Tax Cuts and Jobs Act roughly doubled the standard deduction beginning in 2018 and indexed it annually for inflation through 2025 ($12,950 for single taxpayers and $25,900 for joint filers in 2022). The result was a dramatic reduction in the number of taxpayers who itemize, now only about one out of ten.[1]

If you find that the total of your itemized deductions for 2022 will be slightly below the level of the standard deduction, it could be worthwhile to combine or "bunch" 2022 and 2023 charitable contributions into one year, itemize on your 2022 tax return, and take the standard deduction on 2023 taxes.

Another option is to increase your charitable giving in years when you expect higher annual income. For example, charitable deductions could help offset the tax liability resulting from a business sale, capital gains, stock options, or a Roth IRA conversion.

Utilize a donor-advised fund

Another way to bunch contributions or generate a large charitable deduction for the current year — possibly before you know where you want the money to go — is to open a charitable account called a donor-advised fund (DAF). Donors who itemize deductions on their federal income tax returns can write off DAF contributions in the year they are made, then gift funds later to the charities they want to support. DAF contributions are irrevocable, which means the donor gives the sponsor legal control while retaining advisory privileges with respect to the distribution of funds and the investment of assets.

Donate from an IRA

If you are an IRA owner who is 70½ or older, you can give to charity without itemizing and still get a tax break through a qualified charitable distribution (QCD). A QCD must be an otherwise taxable distribution from an IRA (generally, distributions from traditional IRAs are subject to federal income tax). QCDs are excluded from income and won't affect your tax obligation. Moreover, once you reach age 72, a QCD can satisfy all or part of your required minimum distribution. To make a QCD, you would direct your IRA trustee to issue a check made out to a qualified public charity. You may contribute up to $100,000 from your IRA; if you're married, your spouse may also contribute up to $100,000 from his or her IRA.

Consider a charitable trust

With a charitable remainder trust (CRT), you can donate money, securities, property, or other assets to the trust and designate a beneficiary — even yourself — to receive the income. Upon your death (or the death of your surviving spouse or designated beneficiary), the assets in the trust go to the charity.

Although the annual trust income is usually taxable, you may qualify for an income tax deduction based on the estimated present value of the remainder interest. Once assets are in the trust, the trustee may be able to sell them and reinvest the proceeds without incurring capital gains taxes.

Assets placed in a charitable lead trust (CLT) pay income to the designated charity until the trust ends (typically, upon your death). The remaining assets would then be returned to your heirs. This strategy might help reduce estate and gift taxes on appreciated assets that go to your heirs.

Both types of trusts are irrevocable, so assets cannot be removed from the trusts once they are donated. Not all charities are able to accept all possible gifts, so it would be prudent to check with your chosen organization in advance. Trusts incur upfront costs and often have ongoing administrative fees. The use of trusts involves a complex web of tax rules and regulations. You should consider the counsel of experienced estate planning, legal, and tax professionals before implementing trust strategies.

Strive for effective giving

With so many nonprofit organizations seeking financial support, you may want to direct your money where it can do the most good. Here's how you can help ensure that your donations are well spent.

Give directly to the charity. Individuals who call on the phone or knock on your door are likely to be paid fundraisers, which can cut into the organization's proceeds. Even worse, they could be questionable groups posing as more reputable and well-known charities. When contacted by fundraisers, never give out personal information over the phone or in response to an email you didn't initiate. There's no rush — take time to vet the charity before you donate.

Check out the charity's track record. There are several well-known "watchdogs" — such as CharityNavigator.org, GuideStar.org, and CharityWatch.org — that rate and review nonprofits. These organizations provide information that can help you evaluate charities and make wise choices. Find out how your gift might be used by looking into the charity's mission, plans, and financial status. Charities with higher-than-normal administrative costs may not be spending enough on programs and services — or they could be in financial trouble.

Take advantage of "leverage" opportunities. A wealthy benefactor or corporation may offer to match private donations to a charity during a certain window of time, and some employers have charitable giving programs that match funds donated by employees to qualifying organizations.

DAFs have fees and expenses that donors giving directly to a charity would not face. All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

1) Internal Revenue Service, 2022
