The Best Way to Gift in 2022

Noncash giving is the way to go.

Allison L. Lee | Jan 12, 2022

Purpose and legacy have long been important considerations to older and more affluent clients. Given the devastating effects of the COVID-19 pandemic over the past two years, coupled with strong equity markets performance—often correlated with giving—these themes may be coming up far more often in beginning-of-year planning meetings than ever before.

How best to maximize intended charitable dollars for 2022 and the best vehicles for doing so are all likely to facilitate noncash gifting. Here are some of the best ways to give:

Stock Donations

Clients may already understand that they can see significant tax savings when they donate appreciated stock. This is because their capital gains tax (when selling stock they've owned for more than one year) may be as high as 20%, and they could be subject to an additional 3.8% surtax on net investment income. Your clients can avoid these taxes by donating the stock instead.

They can also save on their income taxes if they itemize deductions, because for appreciated long-term capital-gains property, they can take a deduction for the fair market value (FMV) of their donation. And finally, their donation goes farther, because nonprofit Internal Revenue Code Section 501(c)(3) organizations are tax-exempt and won't have to pay capital gains taxes on the sale.

An added bonus: Clients can reset their cost basis, which positions them to enjoy more tax savings in the future. To make a stock donation, your client will need to fill out a form from their stock brokerage to start the transaction.

Qualified Charitable Distributions

For clients ages 72 and above who are required to take required minimum distributions (RMDs), making qualified charitable distributions (QCDs) is a smart way to give to charity while minimizing taxable income.

RMDs can be a headache for some retirees. They're required to withdraw money that they don't need for living expenses (and must pay tax on it in the process). The exact value of a client's RMD can be anywhere from 4% to 53% of their account balance. That's where QCDs come in.

Making a QCD can count toward your client's RMD for the year. This allows them to fulfill their RMD requirement by donating all or part of it, all while avoiding income tax on the withdrawal. Anyone who's subject to RMDs can make as many QCDs as they want, up to $100,000 a year; however, contributions made to an IRA after 70.5 can reduce the amount allowed to be claimed as a QCD. QCDs are an increasingly popular and powerful tax-saving tool because they can benefit all clients, regardless of whether they itemize deductions or take the standard deduction. To make a QCD, your client should submit a request to their individual retirement account custodian.

Donor-Advised Funds

Donor-advised funds (DAFs) are private investment accounts established by an individual and managed by a third party to benefit one or more nonprofits. Assets invested in a DAF can include cash, stocks and even cryptocurrency. Clients who establish a DAF have advisory rights and can recommend grants from the fund over time to benefit particular projects at their favorite charities.

DAFs are a great option for affluent, charitably-inclined clients who want to make thoughtful gifts over a long period of time while also enjoying tax benefits. Any assets invested in a DAF can qualify for an income tax deduction for that tax year under the applicable deductibility rules. According to National Philanthropic Trust, there were more than 1 million DAF accounts in 2020, holding nearly $160 billion in assets. Those numbers are only expected to grow.

There were recent legislative efforts made around DAFs to limit a donor's advisory rights and the time horizon for distribution of funds, which would likely have curtailed gifts made to DAFs. But the Accelerating Charitable Efforts (ACE) Act hasn't yet passed in Congress, and for now, those feared limitations shouldn't deter a client interested in funding a DAF.

The Bottom Line

Clients interested in charitable giving need to consider an alternative to cash giving. It's often smarter to donate pretax whenever possible. Most importantly, from the client's perspective, any cash in their pocket is money they're using now to pay their day-to-day expenses. Donating other, less liquid assets is a great way to make a difference (and often receive a tax benefit) without taking away from their regular cash flow.

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