How to Make the Most of Year-End Charitable Giving

The landscape has shifted greatly in the past 18 months.

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With a draft bill from the House Ways and Means Committee on the table, all signs suggest that higher income taxes could be right around the corner. How they'll affect charitable giving remains to be seen.

Several tax-conscious strategies for charitable giving—including gifts of appreciated stock, qualified charitable distributions and donor-advised funds—remain effective in the current environment.

It's not too early for either donors or nonprofits to start planning for year-end giving.

The past 18 months have been characterized by rapid change, much of which has shifted the landscape for charitable giving. For donors, 2021 may require a more intentional approach to year-end giving than past years. From the continued crisis triggered by COVID-19 to natural and humanitarian disasters, demand for immediate relief is pressing. However, donors must also consider the support necessary for many nonprofits to thrive and ensure that their charitable dollars remain aligned with their values and individual or family missions.

Following changes introduced in the Tax Cuts and Jobs Act (TCJA) of 2017, many nonprofits have been concerned that the doubling of the standard deduction will give fewer people a financial incentive to give. For others, the question has become: Could the latest round of proposed changes spur *greater* charitable giving?

Amid all these unknowns, many sound and stable giving strategies remain.

A Year of Rapid Change

Legislative measures have continued to dominate the headlines in 2021, with both direct and indirect impacts on charitable giving:

- 2020's Coronavirus Aid, Relief, and Economic Security (CARES) Act encouraged individuals to give during a time of incredible hardship. And in 2021, the government extended the tax breaks. But the window is now closing to take advantage of certain incentives, such as the ability to deduct up to 100% of adjusted gross income (AGI) for cash gifts made directly to public charities.
- To fund President Biden's Build Back Better Agenda, the House recently proposed increasing the long-term capital gains tax rate—for individuals with more than $400,000 of taxable income, and married couples filing jointly with more than $450,000 of taxable income—to 25% plus a 3% surcharge to income over $5 million. This would make charitable giving even more attractive from an income tax perspective than it is today. Congress is still debating the final bill at the time of this writing, so the net effect of any near-term changes will depend on the details of the law.
- The Accelerating Charitable Efforts Act, introduced in June, proposed significant changes to requirements for certain giving vehicles—namely, donor-advised funds (DAFs) and private foundations (PFs). If passed, it could impact the income tax deductions and grant-making time horizons associated with these strategies. Donors who wish to ensure that the charitable income tax deductions for their gifts will be subject to current law should consider making gifts before the proposed enactment date of the bill: Jan. 1, 2022.

Donors aren't the only ones contending with an evolving landscape. The charitable sector has rushed to adapt to an increasingly digital environment. Many organizations that have historically relied on in-person giving (for example, religious institutions) had to quickly pivot to accepting online gifts. Fundraising events moved to virtual settings, and even the assets being contributed made a digital shift, with an uptick in interest for contributions of cryptocurrency.

Ultimately, donor behavior has evolved in response to these changes. Unrestricted giving has increased—alleviating the "red tape" nonprofits often face and reflecting a less donor-centric tone. The jury is still out on whether this trend will persist in the months and years to come, as the world returns to a sense of relative normalcy.

Tips for Giving

Donors should consider:

- **Qualified charitable distributions:** While the Consolidated Appropriations Act, 2021 extended certain tax breaks, it *didn't* extend the waiver of required minimum distributions (RMDs) from retirement accounts. That means, unlike last year, RMDs must be made in 2021. For donors taking the standard deduction, a qualified charitable distribution (QCD) is an attractive option. Individuals over age 70½ can donate up to $100,000 from their individual retirement accounts. This satisfies the RMD requirement, but the gift must go directly to a charity, not to a DAF or PF.
- **Contribution of appreciated stock:** As in the past, donors can help themselves—while helping others—by making charitable gifts in the most tax-efficient way possible. Donors will receive a charitable income tax deduction for the gift of stock, subject to AGI limitations, while permanently avoiding embedded capital gains that may otherwise trigger costly tax liabilities in the future.
- **Charitable bequests:** Uncertainty around income tax reform extends to the estate tax landscape as well, and many wealthy donors are in the process of revisiting their estate plan with their professional advisors. This presents an important opportunity for donors to evaluate how their charitable goals, and the organizations they support, may fit into their lasting legacy.
- **Bunching multiple gifts into a single year can increase the tax benefit of charitable contributions. Donors who may have an unusually high income or gains this year could fund a DAF.** A DAF allows donors to contribute assets to a tax-free investment account, from which they can direct gifts to the charities of their choice. The contribution to the fund provides the donor with a charitable income tax deduction in the year when it's made.

Start Planning Now

The time to think through year-end charitable giving is now—for both nonprofits and donors.

Nonprofits benefit from engaging early; a well-planned year-end appeal can be more thoughtfully executed and thus extra effective. The majority of nonprofits start planning their year-end appeal in October, allowing for multiple touchpoints with donors before Dec. 31.

In addition to generous gifts to the charities they support, donors and volunteers have another way to help—by advocating for others to make year-end gifts. Nonprofits should be engaging with their supporters about taking that step.

Deciding on the best donation strategies takes time, as does coordination with tax and investment advisors. To ensure a smooth and effective year-end giving season, an early start is advisable for all.