Charitable Giving: Now or Later?

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Estate and income tax planning is an important part of your future. Such planning impacts everything from the financial security and success of your family and/or business to the legacy you hope to leave. Oftentimes that can include charitable giving. Did you know there is a tax advantage if you give while you're alive rather than waiting until your death? By giving during your lifetime you achieve two separate deductions (both saving you taxes): The first deduction is the "estate tax" deduction, which reduces your estate taxes and the second deduction is the current year "income tax" deduction, which reduces your income taxes. More importantly, giving while alive also lets you see firsthand how your gifts are helping to make a difference for causes and organizations that you are passionate about. If you want to start giving now, you've got a range of options.

Cash Giving

The simplest way to go is giving cash. Writing a check is easy and charities like cash. You can generally get a current year tax deduction up to 50% of your adjusted gross income (AGI).

Appreciated Stock (Publicly Traded)

When giving appreciated stock, you need to keep a few things in mind. First, do not sell your stock and give cash. Doing so would result in a capital gain and hence, the payment of income taxes. Second, make sure you give long-term capital gain stock (stock you've held for at least 12 months). If you give short-term capital gain stock, you can only deduct what you paid for the stock and not the fair market value. When you give stock to charity, you generally can deduct up to 30% of your AGI.

Personal Property

In order to take a deduction of the fair market value for personal property, the property must be related in use to the charitable purpose of the organization. Otherwise, your deduction is limited to what you paid for the property. This applies to items such as art. You should always get a qualified appraisal for any personal property donated to charity that exceeds $5,000 in value (there are exceptions for cars).

Auctions

With auctions you can only deduct the amount you paid for an item that *exceeds* the fair market value of what it is worth. For example, you go to an auction and purchase a week in Cabo at a private villa for

$5,000, but the fair market value is $2,500. You can only deduct $2,500, the amount you paid that exceeds the fair market value of what you received.

How should you get started?

Any type of charitable giving and planning is a very technical and complicated area with the potential of falling into a variety of tax traps. You should always talk to an expert to do any sort of planning. Also, if you're considering giving an extremely large gift, you have a wide range of other options including private foundations, donor advised funds, charitable remainder trusts, etc. To get started, contact your Henry & Horne, LLP professional tax adviser.

Chuck Inderieden, CPA, PFS, Co-Managing Partner of Henry & Horne, LLP possesses an extensive knowledge in estate, gift and trust planning services for individuals, trusts, and small to medium-size businesses. He can be contacted at (480) 483–1170 or Chuckl@hhcpa.com.