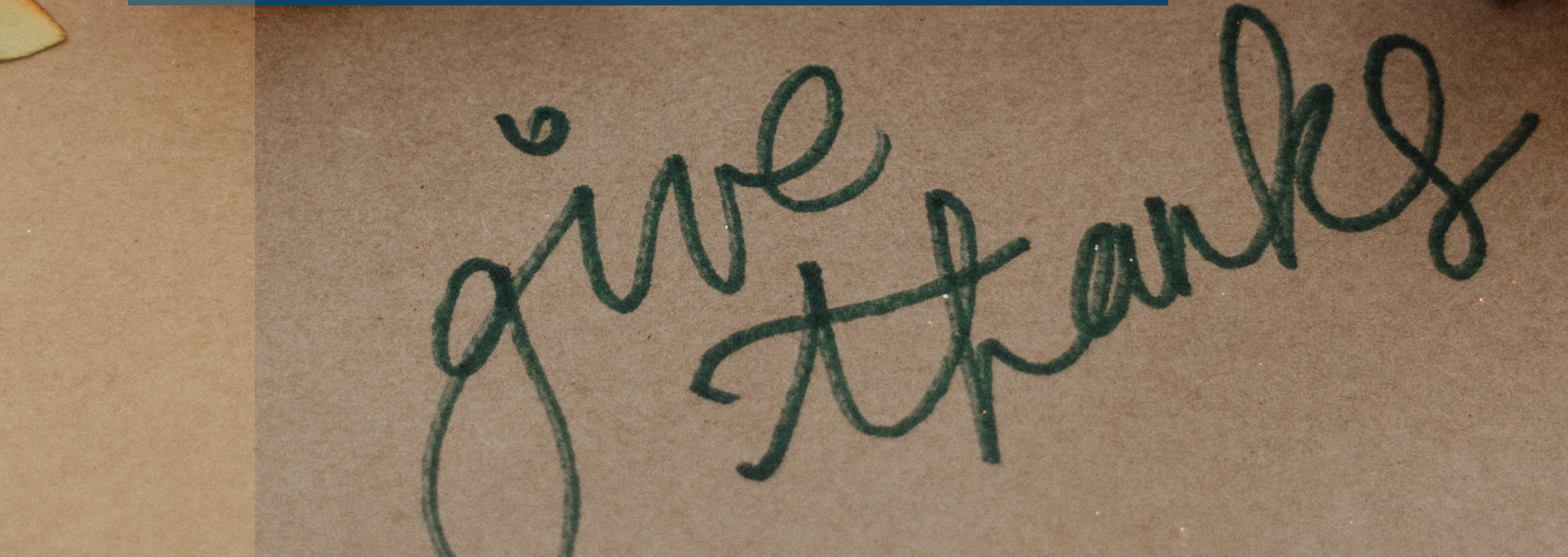
ASCENSION CAPITAL

5 UNIQUE STRATEGIES FOR *Giving This Season*



The holiday season is here, which we hope gives readers more time to spend with family and loved ones. Holidays also offer a time for reflection, and sometimes can inspire the spirit of giving. It's a time to be grateful for what we have, while also looking for ways to help those around us.

Lots of families are charitably-oriented. But many times people are not always aware of unique strategies available for *how* to give. It's no secret that tax codes in the United States are a labyrinth of forms and formulas, which means that smart, tax-saving, strategic giving methods often get overlooked. In this month's letter, we detail five giving strategies to consider this holiday season.

As always, if you wish to pursue any of these strategies, or have further questions about how they work, please do not hesitate to reach out to us. We'd be happy to help.

1. Make Your Required Minimum Distribution (RMD) a Qualified Charitable Donation (QCD)

Choosing to make your 'RMD a QCD' already sounds complicated, we know. But the process is actually quite simple—for people over the age of 72 who have Required Minimum Distributions from IRAs, 401ks, etc., it is possible to directly transfer those funds to a charity. Doing so allows you the benefits of giving to a charity, while also excluding the amount donated from taxable income (maximum $100,000)[i]—a double benefit.

A Qualified Charitable Donation (QCD) is just the technical term for a direct transfer of funds from your IRA custodian to a qualified charity. The direct transfer is critical—if you receive the money directly first, and then donate it to charity, it no longer qualifies as a QCD.

QCDs do not require the IRA owner to itemize, which means it is possible under current tax law to claim the higher standard deduction *and* use a QCD for charitable giving. If the circumstances are right for you, a QCD this year could be a great way to satisfy your RMD requirement while also giving to a charity of your choosing.

2. Charitable Giving

A simpler way of giving this holiday season is to donate cash, property, or capital assets to charity. To receive a tax benefit from charitable giving, normally your total itemized deductions for the year—which would include charitable gifts—must exceed $12,550 for individuals and $25,100 for married filers[ii]. But the law is different for 2021.

According to current IRS rules, the law permits taxpayers to claim a limited deduction for qualified charitable contributions—$300 for single filers (including married filing separate), and $600 for married filing jointly—on their 2021 federal income tax returns.

For those with itemized deductions and charitable gifts that exceed the standard deduction, 2021 also offers the unique benefit of allowing taxpayers to apply up to 100% of their adjusted gross income for qualified contributions. This provision is a potentially big deal for some families, but according to the IRS, "the 100% limit is not automatic—the taxpayer must choose to take the new limit for any qualified cash contribution. Otherwise, the usual limit applies. The taxpayer's other allowed charitable contribution deductions reduce the maximum amount allowed under this election. Eligible individuals must make their elections on their 2021 Form 1040 or Form 1040-SR."

3. For Bigger Donations, Consider a Donor-Advised Fund

For those planning to make substantial gifts now and/or over time, a Donor-Advised Fund (DAF) could offer a great solution.

A hypothetical example will help explain how DAFs work. Let's say you have a goal of giving $100,000 to your favorite charity over the course of 10 years. A potential strategy would be to transfer $100,000 to a donor-advised fund, receive a six-figure tax break immediately, and then develop a strategy for giving that money to charity over time.

Donor-advised funds are kind of like flexible spending accounts dedicated to charity. Your gift to a DAF is irrevocable (you cannot get the money back), but you can invest the money, determine how and when the money is distributed, and choose which charities get what.

Funding a DAF can be done with cash, but you may also choose to donate appreciated securities to get the full deduction and avoid capital gains taxes. Donating real estate and other property is also allowed, but since you give up control of the assets once they are in the DAF, it is usually a better idea to sell them first and donate the cash.

There are also limits to keep in mind. The amount you can deduct in any given year is limited to 60% of your adjusted gross income (AGI) for cash, and 30% of your AGI for capital assets[iii]. If you do not use all of your deductions in a given year, you can carry them over offset taxes for up to five years.

Donor-advised funds offer a dual benefit: giving to those in need, while also potentially—and substantially—lowering your tax burden. DAFs are fairly easy to set up and are usually managed for long-term growth (since growth means more charitable giving over time!). Ascension can help you manage the entire process.

4. Gifting to Family Members and Other Loved Ones

Under current tax law, the IRS allows an individual to give $11.7 million ($23.4 million for married couples) to heirs, exempt from federal gift or estate taxes. You can use all or part of this gift and estate tax exemption during your lifetime.

But there is also an annual $15,000 gift tax exclusion for assets you give to family, loved ones, or even friends[iv]. This annual gift tax exclusion is separate from the lifetime gift and estate tax exemption mentioned above and can potentially be used to reduce the size of your estate over time.

Another great feature of the annual gifting exclusion is that you and your spouse are each allowed to give the $15,000 to as many people as you like. For example, you and your spouse could each give $15,000 to your two kids and three grandchildren, for a total of $150,000 each year—tax free.

Giving cash or securities can work for gifting, but you can also make gifts tax-free by:

- Paying someone else's medical bills;
- Paying a student's tuition bills;

For these specific gifts, there is no annual limit on size, as long as the money is sent directly to the institution—not to the individual you're helping.

5. 529 Plans for Kids and Grandkids

A final strategy for giving this holiday season is making contributions to 529 plans. For readers who may not be familiar, 529 plans are college savings plans with some nice tax advantages. Though contributions into a 529 plan are after-tax, the earnings and growth in the account are not taxable over time, and withdrawals used for qualified education expenses are also tax free.

At the college and graduate level, 529 plan funds can be used for tuition, books, fees, supplies, and other qualified expenses, and $10,000 a year can even be used for tuition for elementary, middle, or high school education or to repay qualified student loans[v].

One unique feature of contribution to 529 plans is a provision known as “front-loading,” which allows a person to give five years’ worth of annual gifts—or $75,000—in a single year without triggering a gift tax or losing any of your $11.7 million lifetime exclusion. Front loading can be particularly useful if the beneficiary is already close to college age.

529 plans also give parents and/or grandparents control—you remain owner of the account even when the beneficiary reaches college age, which allows you to control how and when distributions are made.

Conclusion

As readers can see, there are plenty of unique ways to give to friends, loved ones, and charities, and many times giving can come with the dual benefit of helping someone in need while also reaping some tax benefits. When making a big or lifetime-size gift, it is important to work with a financial advisor to make sure you are taking advantage of all the possibilities and tax benefits, while also double-checking that the charitable organization you are working with qualifies for a deduction.

If you’re thinking of giving this year, or want to discuss future plans for charitable or family giving, Ascension can help you every step of the way. Get in touch with us today to start planning.

[i-v] *Sources: IRS*