Boosting Your Giving with Tax-Efficient Strategies

MORGAN ROSEL
WEALTH MANAGEMENT

In the words of Winston Churchill, "We make a living by what we get, we make a life by what we give." Many of our clients embody this wisdom, embracing generosity as a cornerstone of their lives. While the altruistic act of giving is a reward, we are here to help our clients amplify the impact of their generosity. In this paper, we discuss three tax-advantaged strategies we often recommend our clients employ.

Strategy #1: Stop Donating Cash and Start Donating Stock!

Most donors write checks to their charities, yet they own appreciated investments that could boost their giving and lower their taxes. Let's go through an example showing why this is inadequate.

- Instead of giving $10,000 in cash to your charity, send it to your brokerage account
- You then donate your prized NVIDIA position that has more than tripled in value in the past 10 years (also worth approximately $10,000) to your charity of choice
- Then you repurchase those same NVIDIA shares in your account with that cash you contributed, resetting your cost basis to current market value.

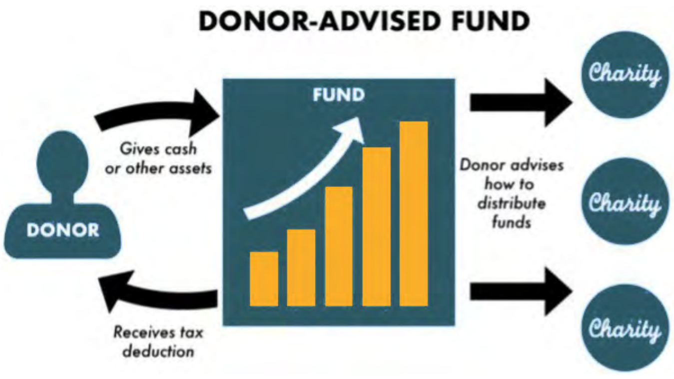
The Results...
Original Cost of NVIDIA Stock: $3,000.00
Fair Market Value of Stock: $10,000.00
Assumed Long-Term Capital Gain Rate: 23.80%

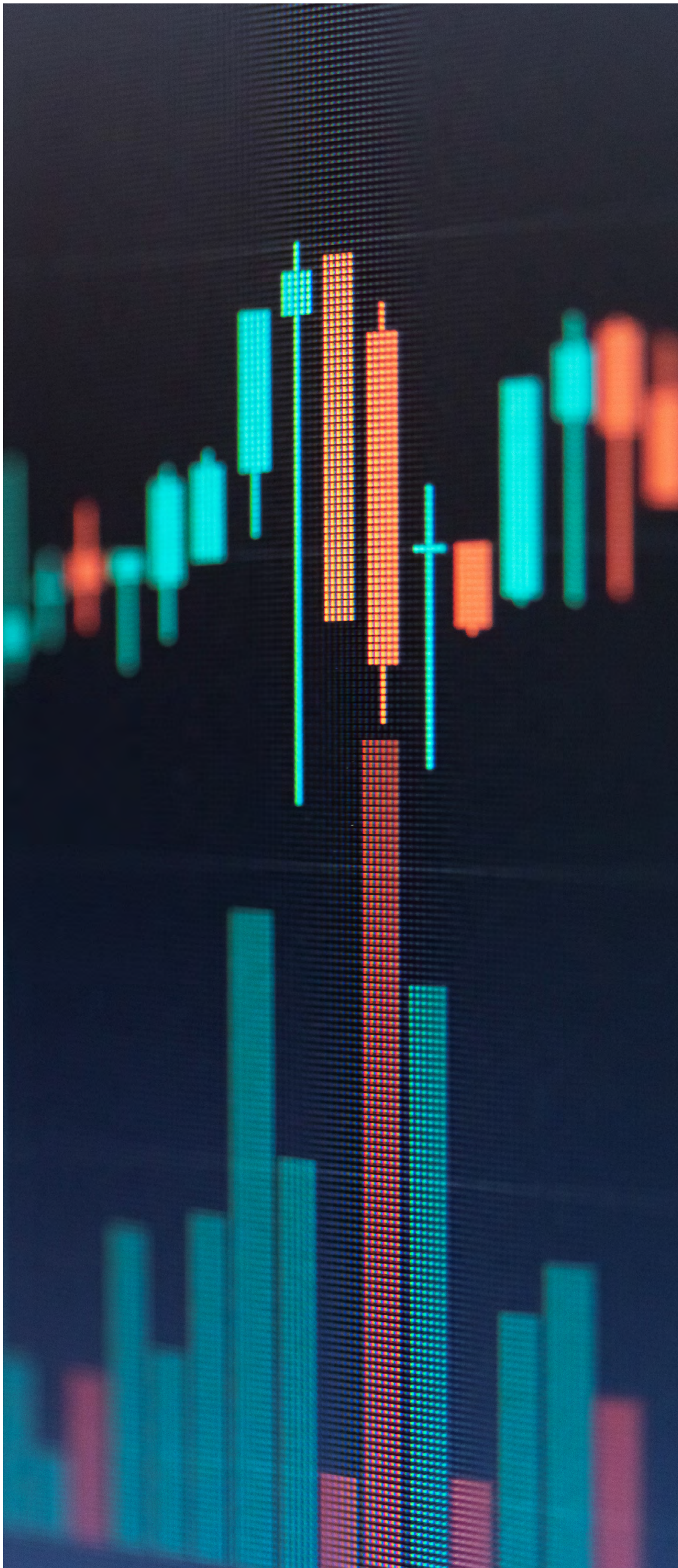
	Option 1: Sell Apple stock and donate the after tax proceeds	**Option 2: Contribute Apple stock directly to charity**
Long-term capital gains taxes paid	$1,666.00	$0.00
Charitable contribution and tax deduction	$8,334.00	$10,000.00
	Additional Amount Available to Donate/Deduct	**$1,666.00**

**Capital Gain and Medicare Surtax Combined*

What's the easiest way to donate a stock? Use a Donor-Advised Fund!

A Donor-Advised Fund is a donation vehicle that simplifies charitable giving. DAFs provide a tax-efficient way to "Give, Grow, and Grant." You can donate a variety of assets including publicly traded investments, private equity positions, preferred shares, and more.





The process goes as follows:

1. Donate the asset
2. Immediately receive the tax deduction
3. Let donated assets appreciate tax-free
4. On your timing, instruct the DAF to send money to your charity of choice

Primary Benefits

- Control of timing on deductions
- Diversification
- Ease of reporting

A custodian like Charles Schwab sponsors the DAF and acts as a registered non-profit. Your deduction occurs when the asset transitions into the fund allowing you full control over the timing. You manage your investment after the transfer but cannot revoke the gift.

Eventually you will sell the asset in your DAF. Your advisors will rebalance the position into a diversified basket of investments. The diversified approach minimizes exposure and promotes wealth generation in the long run.

DAFs are structured to make donating easy. Giving to a single location promotes simplistic tax reporting and document tracing. A sole receipt is yielded which will guarantee brownie points with your accountant in April!

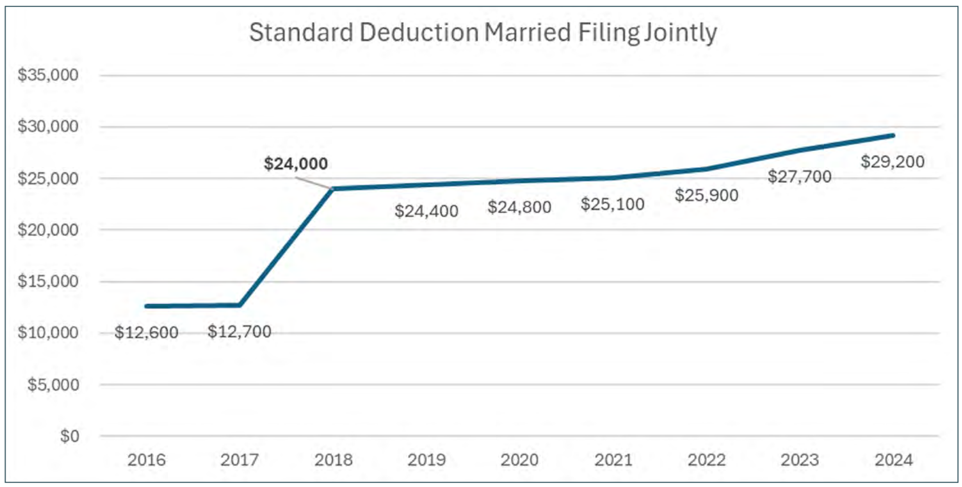
Strategy #2: Bundling Appreciated Assets for Charitable Contributions

Tax Code Change

The US tax code has historically rewarded taxpayers for donating their hard-earned savings towards charitable pursuits. The tax overhaul of 2017 dramatically increased the standard deduction in an effort to simplify the tax filing process. An unfortunate side effect of this change was the elimination of the deductibility of charitable contributions for most filers.

Despite this apparent problem, a workaround exists if you are willing to plan ahead. It is possible to take advantage of the amplified tax savings associated with the higher standard deduction AND get a deduction for your charitable contributions.

**Assuming an investment account exists with appreciated assets*



Example of Bundled Donations Through a Donor-Advised Fund

Problem

Kelly and Kelsey find themselves in the same boat as many donors. Their itemized expenses don't add to greater than the standard deduction. They donate $5000 annually but feel the system is unfair. They own $20,000 in Microsoft stock which has doubled in value since purchase. They came to Morgan Rosel wondering how they could make the most out of their generosity.

Pre-Bundled Donation Details

- Kelly and Kelsey have a combined income of $250,000 a year
- They currently take the standard deduction: $29,200
- Current itemizable expenses:
  - Property Taxes: $2,650
  - State income taxes: $11,000
  - Yearly Mortgage interest paid: $12,010
  - Yearly Donations: $5,000
  - Total Deductible expenses: **$27,010**

**Assumes Kelly and Kelsey own a house worth $500,000, and are halfway through paying off a 30-year loan for $400,000 at a 5% interest rate*

Solution

We advised them to do a bundled donation of their Microsoft stock in 2023 to maximize their itemized deductions, surpassing the standard deduction threshold in 2023.

	Before Bundling		Bundled Donation of Microsoft	
Year	2023	2024–2026	2023	2024–2026
Deductible Charitable Contributions	$5,000.00	$15,000.00	$20,000.00	$0.00
Other Itemized Deductions	$22,010.73	$66,032.19	$22,010.73	$66,032.19
Total	$27,010.73	$81,032.19	$42,010.73	$66,032.19
Deduction Type	Standard	Standard	Itemized	Standard
Deductible Amount	$27,700.00	$87,600.00	$42,010.73	$87,600.00
Total Four-Year Deduction	**$115,300.00**		**$129,610.73**	

**Assuming federal deduction amounts remain constant over the next four years*

Additional Tax Deductions Through Bundling: **$14,311**
Additional Tax Savings: **$3,435**

*(14,300 * 24% marginal tax rate)*

Strategy #3: How Qualified Charitable Distributions Can Help Reduce Federal Income Taxes

We often recommend utilizing Qualified Charitable Contributions (QCDs) to all our clients over the age of 70½. QCDs allow you to directly transfer funds from your taxable IRA to a qualified charity. Withdrawals from an IRA are taxed as ordinary income. QCDs solve this problem by transferring your money to charity and reducing income that normally would be taxed by the IRS in the year taken. Furthermore, individuals over the age of 73 are subject to Required Minimum Distributions (RMDs) from their IRA. By donating prior to age 73, you are reducing the size of your IRA and lowering future RMDs, which lowers taxation. In addition, after 73, QCDs can help fulfill or take the place of RMDs.

About Morgan Rosel Wealth Management

At Morgan Rosel, you don't have to press 0 to speak to a representative. We just pick up. We're stubbornly committed to bringing the human element back to financial planning and investment management. That means promptly answering your questions, thoroughly understanding your goals, and expertly implementing a strategy based on your best interests. We know that earning your trust requires producing exceptional results and continually exceeding your expectations. And that is just what we'll do. Because we're in your corner.

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