Year-End Charitable Giving Strategies to Consider

Charitable planning should be integrated into overall wealth management

As December 31 approaches, charitable giving becomes top of mind for many individuals. Whether driven by a desire to maximize tax incentives, honor a loved one, or thoughtfully allocate year-end bonuses, this season is a strategic time for philanthropy. For high-net-worth (HNW) and ultra-high-net-worth (UHNW) individuals, giving often requires careful planning and involves more advanced strategies to make a meaningful impact.

What Is Charitable Giving?

Charitable giving involves donating money, time, or possessions without expecting any personal benefit. While anyone can engage in philanthropy, HNW individuals have unique opportunities to maximize the impact of their contributions, from setting up private foundations to contributing appreciated securities.

Charitable Giving for HNW Individuals

For HNW clients, charitable giving is not just about generosity – it's an integral part of a comprehensive wealth strategy. A recent study revealed that 90% of HNW investors agree that philanthropy should be woven into their financial planning. With younger generations, like HNW Gen X and Millennial investors, increasingly prioritizing giving, a well-planned strategy becomes even more crucial.

While definitions vary, HNW individuals typically have over $5 million in liquid assets, while UHNW individuals have over $30 million in investable assets. Their giving strategies often need to account for complex assets and the desire to create long-term impact while considering family and community legacies.

Recent Trends in HNW Philanthropy

The pandemic has amplified the significance of charitable giving. Research shows that over 85% of affluent households maintained or increased their giving during economic uncertainty, reflecting a desire to make a difference even amid challenging times. Interestingly, tax incentives are often a secondary motivation; HNW donors prioritize personal satisfaction and connections to meaningful causes. Many also engage family members in philanthropic discussions, creating a multi-generational commitment to giving back.

Advanced Methods of Family Wealth Philanthropy

HNW individuals have several sophisticated giving options that can maximize their contributions while offering potential tax benefits. Here are four popular strategies:

1. Private Foundations. Private foundations are charitable organizations created by individuals or families. Founders maintain control over assets and grant-making, with foundations required to distribute at least 5% of assets annually. These entities offer estate and income tax benefits:

- Gifts to the foundation can be deducted up to 30% of the donor's adjusted gross income (AGI).
- Contributions to a foundation upon a donor's death are estate tax-free.

Foundations are ideal for philanthropists who want to create a legacy, set long-term giving goals, and involve family members in charitable decisions.

2. Donor-Advised Funds (DAFs). DAFs are flexible charitable giving accounts managed by sponsoring organizations. Donors can advise on investments and distributions while benefiting from an immediate tax deduction (up to 60% of AGI for cash gifts). The assets in a DAF grow tax-free, and donors can contribute cash or securities. DAFs are especially useful for "bunching" charitable donations into a single tax year while spreading grants over time.

3. Charitable Trusts. Charitable trusts come in two main forms:

- **Charitable Lead Trusts (CLTs)**: Provide income to charities for a set period, with remaining assets going to beneficiaries. These trusts are effective for transferring wealth while supporting charitable causes.
- **Charitable Remainder Trusts (CRTs)**: Allow donors to receive an income stream for life or a term of years, with the remainder going to a charity. Donors can receive an income tax deduction based on the future value of the gift and potentially bypass estate taxes.

Both trust types are irrevocable and offer a way to balance philanthropy with family wealth planning.

4. Donating Appreciated Stocks. HNW donors can save on capital gains taxes and receive an income tax deduction by donating appreciated securities. This strategy allows charities to benefit from the full value of the gift, tax-free. It's a win-win approach that enhances the impact of the donation.

Strategic Year-End Giving Ideas

To maximize philanthropic impact before year-end, consider these strategies:

1. Extended Giving. Bunching multiple years of charitable contributions into one year allows donors to maximize itemized deductions. Using a DAF facilitates this, providing immediate tax benefits and the flexibility to allocate grants over future years.

2. Tax-Loss Harvesting. Given market volatility, selling underperforming stocks to offset gains and up to $3,000 of ordinary income is a smart year-end strategy. Donating proceeds from tax-loss harvesting adds another layer of tax efficiency.

3. Qualified Charitable Distributions (QCDs). For clients aged 70½ or older, QCDs are a way to make up to $100,000 in tax-free donations annually from an IRA to qualifying charities. This approach can reduce taxable income and count toward required minimum distributions (RMDs).

Moving Forward with Charitable Giving

HNW individuals play a significant role in philanthropy, with the top income earners contributing the majority of charitable donations. As the great wealth transfer continues, engaging younger generations is essential to sustaining family legacies of giving. Discussing values and causes with heirs fosters a philanthropic mindset that transcends generations.

Strategic charitable planning should be a year-round conversation integrated into overall wealth management. By thoughtfully managing philanthropy, HNW clients can make a substantial impact while benefiting from tax advantages. However, given the complexities of tax laws and charitable vehicles, consulting a professional is always advisable.