Four steps to high-impact, tax-smart charitable giving

by Kim Laughton—President, Schwab Charitable

Investors and nonprofits are still adapting to the Tax Cuts and Jobs Act as they face more volatile and uncertain markets. It's an environment well suited to charitable giving strategies that maximize tax benefits and deliver more impact to charities.

Schwab Charitable celebrated its 20th anniversary in 2019 and our donors reached an incredible milestone: They recommended more than $12.5 billion in grants to 150,000 charities since inception. During fiscal year 2019, we saw a 33% increase in dollars granted and a 26% increase in the number of grants to over 83,000 charities compared to the prior fiscal year. To sustain this momentum, we are encouraging donors to take four steps to potentially increase their impact.

1 Contribute appreciated, non-cash assets and investments to charity.

Despite some volatility, the S&P 500® index roughly doubled between 2013 and 2019[1]. With some uncertainty about the future, now could be an ideal time to unlock appreciated, non-cash assets and investments for tax-smart charitable giving while their values are relatively high.

WHAT CAN YOU DO?

Identify highly appreciated, non-cash assets and investments, and donate them to a public charity, including a donor-advised fund. In addition to receiving a current-year tax deduction, individuals generally do not pay capital gains tax on the sale of donated assets that have been held for more than one year. This can offset capital gains taxes that may be generated by portfolio rebalancing and increase the amount available for granting by up to 20% compared to selling the assets and donating the proceeds. In fiscal year 2019, 66% of contributions to Schwab Charitable were non-cash assets and investments. The most popular were publicly traded securities, restricted stock, real estate and privately held business interests.

Hypothetical example (assuming investment has been held for more than a year):

	Sell stock and donate net proceeds (cash) to charity	Donate stock to Schwab Charitable donor-advised fund account
Asset value (fair market value)	1,000 shares @$55 per share = $55,000	1,000 shares @$55 per share = $55,000
Capital gains (100% long-term) Assumes a cost basis of $5,000 and long term capital gains of $50,000	$50,000	$50,000
Capital gains tax paid (23.8%, includes 3.8% net investment income surtax)	$11,900	$ 0
Value of gift to charity (How much the charity will receive after taxes)	$43,100	$55,000 ($11,900 more for charity)
Value of charitable deduction (Assumes donor is in the 37% federal tax bracket)	$15,947	$20,350 (The donor's federal income taxes are reduced by $4,403)
Donor tax savings (Value of deduction less capital gains tax paid by donor)	$4,047	$20,350
		With a direct donation to charity or a donor-advised fund account, the donor's federal income taxes are reduced by $4,403 and the charity receives $11,900 more.

Hypothetical, for illustrative purposes only. Assumes cost basis of $5,000, that the investment has been held for more than a year and that all realized gains are subject to the 20% federal long-term capital gains tax rate plus the 3.8% Medicare net investment income surtax. Does not take into account any state or local taxes. Gifts to charity of restricted stock greater than $10,000 are typically deductible at fair market value as determined by a qualified appraisal. Such appraisals may be discounted to reflect the lack of immediate marketability and other restrictions. Such discounts vary widely, depending on the nature of the specific restrictions. A 20% discount was assumed for this example. The example assumes full deductibility (gifts of long-term property are generally limited to 30% of adjusted gross income with a 5-year carryover of any unused amount). Assumes donor is subject to the maximum 37% federal tax and does not account for state or local taxes. Certain federal income tax deductions, including the charitable contribution, are available only to taxpayers who itemize deductions, and may be subject to reduction for taxpayers with adjusted gross income (AGI) above certain levels. In addition, deductions for charitable contributions may be limited based on the type of property donated, the type of charity, and the donor's AGI.

WHERE CAN YOU LEARN MORE?

Learn more about making non-cash contributions.

2 Take advantage of the charitable deduction.

The charitable deduction is one of the best ways to reduce income tax for individuals who itemize deductions on their tax returns. Donors can deduct up to 30% of their adjusted gross income (AGI) for non-cash donations, and up to 60% of their AGI for cash donations.

The Tax Cuts and Jobs Act also created a new opportunity for many donors who have historically itemized deductions by raising the standard deduction to $12,000 for single filers and $24,000 for married couples filing jointly. By concentrating, or bunching, charitable contributions and then itemizing every few years, individuals may be able to benefit from both the increased standard deduction and the charitable deduction, and give more to charity. A donor-advised fund account makes it easy to fund more than one year of giving in advance and provide consistent support to charities over time.

Hypothetical example of a married couple with no children:

	Option #1 Take the $24,000 standard deduction		Option #2 Tax-smart planning: Concentrate Giving	
Tax Year	**2018**	**2019**	**2018**	**2019**
Charitable deduction	$10,000	$10,000	$20,000	-
Other deductions	$13,000	$13,000	$13,000	$13,000
Total	**$23,000**	**$23,000**	**$33,000**	**$13,000**
Standard or Itemized Deductions	**Standard Deduction**	**Standard Deduction**	**Itemized Deduction**	**Standard Deduction**
Deduction Amount	$24,000	$24,000	$33,000	$24,000
Total two-year deduction		$48,000		**$57,000**
				That's $9,000 of additional tax deductions over two years!

WHERE CAN YOU LEARN MORE?

Learn "Strategies to help maximize giving and reduce taxes."

3 Align your investments with your values.

A growing number of donors want to incorporate their values into their investments. Money managers representing one quarter of assets under professional management in the US now incorporate environmental, social, and governance criteria or strategies into their investment analysis and decision making process[2]. Transitioning investments to a values-driven strategy can generate significant capital gains taxes or capital losses as an investor sells holdings not consistent with the socially responsible mandate. Donors can potentially ease the capital gains tax burden from selling appreciated assets held for more than one year by contributing a portion of these assets to charity, including donor-advised funds.

Donor-advised funds also offer an opportunity to invest funds that have been set aside for charity in socially responsible businesses. Individuals who have contributed to a donor-advised fund may invest their account balances for tax-free potential investment growth ahead of future granting. Since Schwab Charitable was founded, investment growth has generated almost $3 billion in additional funds to support donors' philanthropy.

Schwab Charitable offers two investment pools with socially responsible mandates. Donors with larger accounts at Schwab Charitable may recommend an investment advisor to manage a custom socially responsible or impact investment portfolio for their charitable accounts. More than 150 such funds are available to financial advisors and individual investors through Charles Schwab & Co., Inc., including choices from Calvert Investments, Domini Social Investments, Parnassus Investments, and Pax World Funds.

WHERE CAN YOU LEARN MORE?

Learn how one donor transitioned her investment portfolio to support a 10-year commitment to gender equality.

4 Invest in the long-term health of nonprofits.

Despite Schwab Charitable's record fiscal year of granting, total individual charitable giving in the US decreased just over 1% in 2018[3]. Two factors that may have contributed to the decline — a volatile stock market and the increased standard deduction — remain with us. Research also suggests that pressure to keep overhead low and promote programs may create an incentive for nonprofits to underfund the infrastructure that can make them financially resilient[4].

Donors can help their charities of choice become financially stronger by creating a charitable plan that reflects their philanthropic objectives and financial considerations. Schwab Charitable offers donors knowledge and guidance about establishing a charitable mission, researching charities, and setting giving goals. We also make it easy for donors to monitor their strategy with convenient online and mobile access, tools which visually track progress, a simple "grant again" feature, and recurring grant functionality.

Planned giving is good for charities and donor-advised funds serve as an important revenue source for nonprofit organizations during recessions[5]. A thoughtful charitable plan helps donors support healthy charities that deliver successful programs through times of economic uncertainty.

WHAT CAN YOU DO?

Tailor your charitable plan to the financial needs of your favorite charities

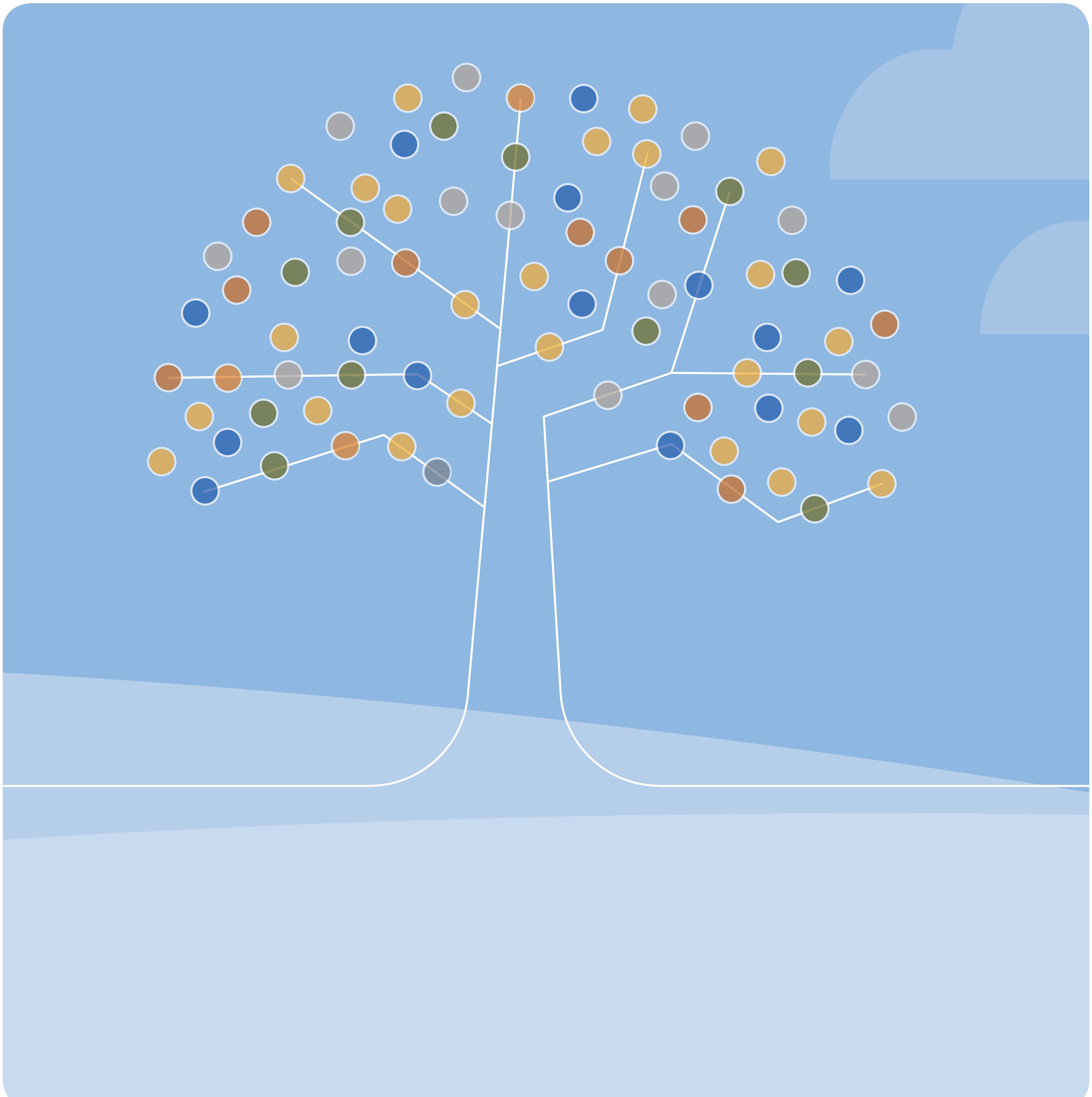
Ask questions	Find answers
• How much funding comes from annual fundraising versus recurring income? Are shortfalls expected? • Do any individual programs face funding shortfalls? • When does the fiscal year end? What is required to meet program or budget goals? • What are the return expectations for the endowment? Are these realistic? • What is the biggest threat to the charity's financial health?	• Guidestar • Charity Watch • Give Well • Charity Navigator • Better Business Bureau • View your favorite charity's web site or contact them directly

WHERE CAN YOU LEARN MORE?

Read "What Nonprofit Leaders Wish More People Knew."

Now is a good time to engage your favorite charities.

Donors consistently tell us that their most rewarding experiences with charities come through deep engagement. This year, consider whether you can increase your charitable impact through ongoing support with time and talent in addition to money. By supporting the long-term stability of the nonprofit sector through tax-smart giving and high-impact engagement, donors will help their favorite causes continue to thrive.



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Giving wisely
is great.

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1 Yahoo Finance. As of October 1, 2019.

2 Forum for Sustainable and Responsible Investment: Report on US Sustainable, Responsible and Impact Investing Trends, 2018

3 Giving USA: Giving USA 2018: The Annual Report on Philanthropy for the Year 2018, June 2019. Total charitable giving reached $427.71 billion in 2018. Giving by individuals totaled $292.09 billion, a decline of 1.1% (or 3.4% adjusted for inflation) compared to 2017.

4 Stanford Social Innovation Review: Michael Etzel & Hilary Pennington: Time to Reboot Grantmaking, June 2017

5 H. Daniel Heist & Danielle Vance-McMullen: Understanding Donor-Advised Funds: How Grants Flow During Recessions, 2019

Schwab Charitable is recognized as a tax-exempt public charity as described in Sections 501(c)(3), 509(a)(1), and 170(b)(1)(A)(vi) of the Internal Revenue Code. Contributions made to Schwab Charitable are considered an irrevocable gift and are not refundable. Please be aware that Schwab Charitable has exclusive legal control over the assets you have contributed. Although every effort has been made to ensure that the information provided is correct, Schwab Charitable cannot guarantee its accuracy. This information is not provided to the IRS.

Contributions of certain real estate, private equity, or other illiquid assets are accepted via a charitable intermediary, with proceeds transferred to a donor-advised account upon liquidation. This intermediary considers donations on a case-by-case basis, and assets typically must be valued at $250,000 or more. Call the Fund for more information at 800-746-6216.

Market fluctuations may cause the value of investments held in a donor-advised fund account to be worth more or less than the value of the original contribution to the funds. Socially screened funds exclude certain investments and therefore may not be able to take advantage of the same opportunities or market trends as funds that do not use social screens.

A donor's ability to claim itemized deductions is subject to a variety of limitations depending on the donor's specific tax situation.

Schwab Charitable does not provide tax or legal advice. Where specific advice is necessary or appropriate, Schwab Charitable recommends consultation with a qualified professional.

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Diversification and rebalancing a portfolio cannot assure a profit or protect against a loss in any given market environment. Rebalancing may cause investors to incur transaction costs and, when rebalancing a non-retirement account, taxable events may be created that may affect your tax liability.

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