

Fun with Gifting - Creative Way to Give Back Transcript

Hey everyone, Rachel from Journey Financial here. I'm excited to share with you our topic today on our educational course, Slice of Advice. Today's topic is fun with gifting. We're going to look at some unique and creative ways to give back, some charities that you can donate to, and some options that you might have. Today's topic is going to be very high level, so if there is something that you are truly interested in as we discuss this, reach out to us and we would love to get you more information on the topic. Even if it's not something we can create for you, generally we can find somebody that can help you out. So let's jump right in.

Let's start with what is the difference between gifting versus giving to a charity. There are a couple different reasons why we want to talk about the differences, and mostly what it has to do with your tax exposure. Starting out with gifting—this is where you have an asset or cash or something of value that you are going to give to someone else, whether it be a family member, a friend, or a charity. I'm going to include charity for a second and then I'll talk about how it's different. What you need to know about gifting is mostly having to do with capital gains. That means if you buy something low and it appreciates and then you give that highly appreciated item to someone, what happens to the taxes? The short answer is that the capital gains amount you purchased it at—wherever you purchased it at—is what the person who is receiving the gift has to stick with. There is no step-up in cost basis as you might expect if you were to pass and allow them to inherit the item.

For example, if I purchased Adobe decades ago and that stock is now worth \$50,000, and I choose to give that stock to my son Joe, he actually inherits all of those gains as well. I don't have to pay taxes on the capital gains because I haven't sold the asset—I've simply transferred ownership. So now Joe has this asset worth \$50,000, but about \$45,000 of that is capital gains. If he were to sell out of that Adobe and take the cash, he would have to pay capital gains taxes on the full \$45,000. He inherits the cost basis when you are gifted an item, meaning when you give something away you are also giving them the tax exposure to that item or asset. Now, if you were to pass and they were to inherit it, that's a totally different story because it gets a step-up in cost basis, meaning Joe wouldn't have to pay any taxes except on growth after you've passed.

So why would you gift something? It's a great opportunity to allow your beneficiaries to use the funds you would give them anyway now. It can help support someone immediately rather than waiting until you pass. Yes, they take on the tax exposure, but they also get the advantage of using the funds earlier in life. I also want to talk a little bit about gift tax versus

capital gains. Again, when you give something, you are gifting them the capital gains tax exposure as well, but outside of that there is a gift tax exposure at a very high number. You don't incur gift or estate taxes unless you exceed roughly \$15 million per individual and \$30 million per household as a lifetime maximum, not an annual maximum. So what is this \$18,000 annual amount? That's the amount you can give without having to notify the IRS. Even if you go over \$18,000, you typically won't have to pay gifting taxes or estate taxes on that gift, but you will have to file a form letting the IRS know you gifted more than the annual threshold. This amount is per giver, so if you are married, you and your spouse can each give \$18,000 to the same person. On the receiving end, there is no maximum. And even if you gift that \$50,000 stock we talked about, you're not paying gift or estate tax—you're simply filing the form because it's above the annual threshold.

You still pay taxes the same ways you normally would. If you pulled funds out of an IRA, you would pay taxes on that. If you sold the appreciated stock first and then gave your son Joe \$50,000 in cash, you would have to pay capital gains tax on the appreciated amount. So all the ways you're already taxed on income and capital gains continue to be the same, but you do not incur an additional tax just by gifting it to somebody else.

This is very different than when we talk about charities. If it's a 501(c)(3), it's tax-free in the sense that it doesn't count toward your lifetime gift maximum, and you're not passing the cost basis problem along the same way because charities are tax-exempt. The nice part about charities is that as long as it is a 501(c)(3) and you keep your receipts, you can use your charitable donations to work toward beating the standard deduction on your taxes. Charitable donations show up as itemized deductions on your 1040. There is a way around this that we'll talk about in a minute—how you can do a QCD—but in general, when you donate to charity, keep your receipts and tally up the amount, hoping you can beat the standard deduction by using charitable donations along with other itemized deductions.

Now let's talk about some unique places you can donate. There is a neat IRS website at [irs.gov](https://www.irs.gov) that lists tax-exempt organizations, so rather than listing specific charities, I want to give you genres so you can find a charity that fits what you want to support—locally or globally. Most museums and societies will generally have a 501(c)(3), even if they are for-profit, often with a charitable branch you can donate to. This can include art communities, youth art programs, adult art communities, art centers—many organizations that display or promote art have a charitable arm. There are also all kinds of niche museums—rodeo museums, flight museums, military museums, mining museums—and many survive through charitable donations. Anything that piques your interest may have a 501(c)(3) that you can support.

If you have youth in your family or community, many school-related fundraisers or committees will be 501(c)(3)s or will route donations through a charitable entity. Schools—public or private—often have charitable branches for scholarships or educational foundations that you can donate to. Leadership programs, musical societies, and youth organizations frequently have charitable arms as well. Zoos and aquariums are always looking for donations, and those can come with tax benefits. Art councils, animal shelters, community gardening, green belts, and other community-building groups may accept individual donations and provide charitable write-offs. Don't be afraid to look around and find something that interests you if you're looking to dip your toe into charitable giving.

Now let's cover some common charitable strategies. First is a QCD, or qualified charitable donation. You have to be 70 and a half years old, but we absolutely adore QCDs for what they do for people. Earlier I mentioned keeping receipts to try to beat the standard deduction, but QCDs can circumvent that. If you take funds directly from a retirement account—usually a traditional IRA, and sometimes a 401(k) if allowed—and have it sent to a charity, and it's coded correctly, it counts as a qualified charitable donation. The nice part is that it decreases the taxable income shown on your 1099, meaning you're reducing income "above the line" rather than relying on itemizing deductions. For example, if your income shows \$150,000 and you do a \$10,000 QCD, your taxable income could effectively reflect \$140,000. Another bonus is that QCDs can also count toward your required minimum distributions (RMDs). If you're required to take RMDs from your IRA, sending those distributions directly to charities can count as part—or all—of your RMD, and you don't pay taxes on that portion. If you're past 70 and a half and already giving, it may be worth discussing shifting to QCDs.

Another common charitable strategy is a DAF, or donor-advised fund. With a DAF, you donate a certain amount of assets or funds to a third-party organization that holds and manages the funds and then sends donations out to your chosen charities over time, as you request. This can be great for people who donate regularly and want to take the tax advantage upfront. For example, if someone knows they want to donate \$70,000 over the next 10 years, they can contribute the full \$70,000 to a DAF in year one and take the tax benefit in that year. The funds can continue to grow tax-free while supporting future donations. You choose the charities and timing, but the fund cuts the checks and sends them out. You don't claim the tax benefits each year—you claim them once when you fund the DAF—so it can be especially helpful in a year with a major income event or for those with highly appreciated after-tax assets they don't want to sell and pay capital gains taxes on.

Another option is donation “bunching.” If you give a similar amount each year but aren’t beating the standard deduction, you can combine multiple years of giving into one year to potentially exceed the standard deduction and get more tax impact. For example, if you typically give \$5,000 each year, you might give \$10,000 in December of one year and then give nothing the next year, creating a larger deduction in the year you bunch.

Direct donation of property is another idea. Rachel shares a story about donating an old car—something not very valuable or even ideal to sell—to a charity. The charity accepted it and the donor received a write-off, and everyone was happy. Even items you think might not have much value may still have value as a charitable deduction, so it can be worth asking and exploring what charities need and will accept.

There are also more advanced strategies, discussed at a high level. A CRUT, or charitable remainder unitrust, is a trust with a charitable remainder clause. Inside a retirement account, it may help extend the payout timeline for beneficiaries. The example shared is that beneficiaries typically have a limited timeframe to withdraw inherited IRA funds and pay taxes on them, and a remainder trust can potentially extend that timeline, with a portion required to go to charity. Outside of a retirement account, a CRUT can help spread out taxes on the sale of a highly appreciated asset and can provide payouts to you as the beneficiary during your lifetime, with remaining assets eventually going to charity. These are created by attorneys and must be set up correctly.

A family foundation is another option. It can be a way for family wealth to support charitable giving and allow family members to be involved in the foundation’s work. It’s complicated and legal in nature, but it exists as a strategy for those interested.

Another gifting measure that’s not necessarily charitable is paying medical and educational expenses directly. As long as you pay those expenses directly to the institution—hospital, doctor, school—it can avoid gift tax issues. You still pay taxes on the money as applicable, but it can be a neat way to support a family member with big medical bills or education costs.

Lastly, 529 plans are a great way to gift toward education. You contribute after-tax funds, and the growth can be tax-free as long as withdrawals are used for qualified educational expenses. Some states may offer a state tax deduction for contributions, and 529s can be flexible if the intended beneficiary doesn’t use the funds—you can often change the beneficiary.

Overall, the number one thing to remember with charitable donations is document, document, document. Keep your receipts and documentation. At the end of the day, it’s you, your CPA, and your receipts that prove to the IRS that the donations were made

correctly. If you keep good records, there are many great ways to help the community, feel good about what you've done, and help the future as well.

If you have further questions or want to learn more, Journey Financial offers a "Give Your Money with Purpose" meeting and is happy to do a 15-minute phone call to get to know you and see how they can help—whether in charitable giving, estate and future planning, or retirement income strategy. You can call 208-552-9169 or email office@journeyretirement.com. And for finding charities and verifying organizations, the IRS has a reliable website where you can search for tax-exempt organizations at www.irs.gov/charities-nonprofit/ (search for tax-exempt organizations). These classes are for educational purposes only and are not specific investment advice, but if you want specific guidance, you know how to reach them. Thanks, and have a great day.