Be strategic about your gifting

Charitable giving

Why is this important?

- Supporting causes you care about can be for everyone. Americans gave $484.85 billion in 2021.[1]
- Being strategic about what type of assets you give can maximize the gift to organizations that you care about while providing you with a tax deduction and supporting the organizations that reflect your personal values.
- You can receive a tax deduction on a gift:
  - You may be able to reduce your taxable income in a given year and/or offset the effect of a windfall income event (e.g., sale of business or large bonus).

What do I need to know?

What type of charity are you gifting to?

- **Public charity:** A public charity is a 501(c)(3) entity, such as an educational organization, hospital, medical research organization, religious institution or other publicly supported organization.
  - Public charities typically have the highest deduction threshold for income tax purposes.
- **Private foundation:** A private foundation is a private, nonprofit organization that receives the majority of its funding from one source or family.
  - A private foundation must distribute at least 5% of its previous year's average assets to charity each year. They are typically grantmaking organizations, but have flexibility to execute on their own charitable programs as well.

Which assets are the best to gift to charity?

- Giving assets that have appreciated provides a key tax advantage to you and therefore may make more sense than donating cash.
  - You must itemize to get a federal income tax charitable deduction.
  - You may be able to avoid capital gains taxes on a low-cost basis asset.
  - For gifts of appreciated publicly held securities held for more than one year, you can receive a fair market value deduction for the asset donated and do not pay gains on the gift.
  - Public charities—including DAFs—do not pay capital gains taxes. Private foundations pay a minimal tax, 1.39% of realized capital gains and net investment income.

What are my options for gifting to charity?

- **Direct gifts:**
  - Appreciated assets like real estate, art work and privately held securities can also benefit from a fair market value deduction to a charity or a donor-advised fund. If gifted to a private foundation, however, they are limited to cost basis.
  - You always have the option to donate directly to a public charity if there is a specific organization you would like to support.
  - Although there is no limit to the amount you can donate to a public charity, there are limits on how much you can deduct from your taxes in any given year.
  - For those over the age of 70½, you could consider using your required minimum distributions from your IRA to gift directly to charity. This could qualify as a qualified charitable distribution and may not be subject to income tax.[2]
- **Donor-Advised Fund:**
  - If you would like a tax deduction for this year, but want flexibility as to when you donate to a charitable cause, consider creating a Donor-Advised Fund (DAF).
  - A DAF is an account established with a specific public charity.
  - Once established, you contribute to the DAF with cash or appreciated securities, and those assets are invested.
  - At any point in time, you may recommend a distribution from the DAF account to a registered charity of your choice.[3]
  - You will receive a tax deduction for the year you contribute to the DAF, not when the grant is recommended.
- **Private foundation:**
  - Creating a private foundation often entails a significant investment of personal time and legal and accounting fees.
  - However, it provides you with more flexibility since the board controls the mission, charitable recipients and investment management of funds.
  - Private foundations are most appropriate if you want to:
    - Support gifts to individuals for emergency or hardship assistance, scholarships, prizes or non-501(c)(3) charities who are working on problems you are interested in.
    - Fund creative charitable enterprises.
    - Have a vehicle for engaging the family philanthropically across generations, and be able to compensate or reimburse them for expenditures.
- **Charitable trusts:**
  - Charitable trusts are a way to donate a highly appreciated asset and create an income stream for a beneficiary or a charity. They can be structured in a variety of ways to help you maximize your gifts.
  - Charitable beneficiaries can be a private foundation, a donor-advised fund or a public charity.
    - For current income with the remaining assets going to charity:
      - Charitable Remainder Annuity Trust
      - Charitable Remainder Unitrust
    - For income to a charity with the remainder moving to another individual:
      - Charitable Lead Annuity Trust
      - Charitable Lead Unitrust

What should my next steps be?

- [ ] Speak with your UBS Financial Advisor about your liquidity, longevity and legacy needs.
- [ ] Review your adjusted gross income (AGI) with your accountant to determine how it will impact your threshold for tax deduction amounts, if necessary.
- [ ] Work with your UBS team to review your assets to determine which ones make the most sense to gift.
- [ ] Let us work with you and your family to determine what charitable causes you care about and help you maximize your gifting strategies.

[1] *Giving USA 2022: The Annual report on Philanthropy for the Year 2021.*
[2] The amount that can qualify for a Qualified Charitable Distribution (QCD) is limited to $100k per year.
[3] Although the DAF will typically honor your request for where to grant the money, they are not legally required to do so.

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Market fluctuation, account and administrative fees, and other charges will impact the amounts ultimately available for distribution from a Donor-Advised Fund or private foundation.

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