A tax-smart approach to year-end giving season and charitable donations

Making strategic choices about how you donate can help make the most out of your contributions.

Dr. John Brothers
President of T. Rowe Price Charitable

KEY INSIGHTS

- Donating long-term appreciated assets can be an effective strategy to minimize capital gains taxes.
- Bunching donations in one year may enable you to realize tax savings from itemization.
- Consider a donor-advised fund to efficiently convert a contribution of appreciated assets into support for multiple charities.

You may have imagined giving more to your favorite charities and making a bigger impact. Using tax-smart giving strategies could make being more generous a reality. "Donors can use these approaches to give generously based on their personal situations and their goals," says Dr. John Brothers, president of T. Rowe Price Charitable.[1]

A strategic approach

Donors typically have a strong commitment to philanthropy and a desire to support the causes that are most meaningful to them, whether they include education, the environment, the arts, or any number of other worthwhile causes. And tax deductions for charitable contributions provide an important benefit to consider when developing a financial strategy for charitable contributions. Making strategic choices about how you donate can help make the most out of your contributions. For instance, donors may choose to:

- Donate long-term appreciated securities or other assets, which would allow the donors to claim a charitable tax deduction for the fair market value of their contribution and avoid potentially significant capital gains taxes on those assets. To see the potential impact of donating appreciated assets, you can use T. Rowe Price Charitable's Tax Savings Calculator.
- Bunch two years' worth of contributions into one tax year, perhaps at the start or the end of the

[1]T. Rowe Price Charitable is an independent, nonprofit corporation and donor-advised fund founded by T. Rowe Price to assist individuals with planning and managing their charitable giving.

calendar year, which could result in a higher total itemized deduction for the donor in that year above the applicable standard deduction. Here is an illustration of how this bunching tax strategy works.

- Leverage a donor-advised fund (DAF) to efficiently take advantage of both of these tax strategies. For example, combining the bunching strategy with a DAF provides flexibility to support charities in any year while optimizing tax savings in the current year.[2] DAFs can also accept a wide range of appreciated assets, unlocking their charitable value while minimizing capital gains taxes. In the meantime, any balance in the account has the potential for tax-free growth, which could result in more funds for a donor's favorite charities. Use T. Rowe Price Charitable's Giving Power Calculator to estimate your giving potential.

Adjust as necessary

With just a few months left before the traditional year-end giving season, take time now to evaluate how your existing charitable strategies may fit into the current tax and economic landscape, and determine if you may benefit from making any adjustments. "Charitable giving remains a core value for many American families," says Brothers. "As tax laws change, tax-related gifting strategies may need to be adjusted. But the values and philanthropic legacy will persist."

How DAFs Make Giving Easier

Develop a cost-effective, long-term strategy for philanthropic giving.

Donor-advised funds (DAFs) are public charities that accept irrevocable gifts of cash or appreciated assets, invest those gifts for potential growth, and then distribute those funds to qualified nonprofit organizations per the donor's recommendation. Much like foundations, but with many fewer administrative duties, DAFs can help donors develop a charitable legacy. They also give donors additional flexibility in the timing of their gifts. Their benefits include:

- Facilitating the liquidation of long-term appreciated assets (including publicly traded securities, private stock, business interests, real estate, etc.) to potentially eliminate capital gains tax liability
- Simplifying recordkeeping for tax time
- Organizing giving to multiple charities through one account
- Enabling the involvement of additional family members to develop a multigenerational approach to philanthropy

With over 1 million DAF accounts in the U.S., donors are increasingly choosing these accounts to facilitate their giving and amplify their impact on charitable causes.

[2] You will not receive a second charitable deduction at the time a grant distribution is made from your DAF.

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