

# **HOW TO DONATE FUNDS AND STOCKS TO YOUR LOCAL CHURCH USING TAX-SENSITIVE STRATEGIES**

Presented by Bettendorf Financial Group

## **The Tax Cuts and Jobs Act signed into law on December 22<sup>nd</sup>, 2017 is already changing how households are itemizing their charitable donations.**

According to the new Tax Policy Center, an estimated 21 million U.S. households will stop itemizing charitable deductions starting in 2018 because of several changes in the Tax Cuts and Jobs Act. ([Chicago Tribune, January 2018](#)) This could spell trouble for nonprofit organizations, namely churches and faith-based charities, with donors feeling less compelled to give more if the tax break isn't as substantial for itemized deductions. Churches and faith-based organizations across the U.S. are already concerned about this change.

What if you have a significant amount of financial assets (such as stocks and mutual funds) you wish to donate to your church? The good news is there are several ways to make your donations and avoid incurring unnecessary taxes. There are three noteworthy methods that investors should strongly consider leveraging into charitable donations while reducing tax liability: donor-advised funds, qualified charitable distributions, and appreciated securities.

### **Donor-Advised Funds**

A donor-advised fund, or DAF as it's often called, is designed to help more financially generous individuals share their wealth through nonprofit organizations. An easy way to think of a DAF is to see it as somewhat of a savings account designated for charity.

Donors can give irrevocable donations into the DAF, receive the immediate maximum tax credit, and then, the donors can provide input for how they wish the funds to be distributed. One popular way DAFs are used is in the form of grants.

Any money placed in a DAF can be invested and grow without tax penalty because it's designated for charity. You as the donor can choose the name of your donor-advised fund account (e.g., "The Mary Schultz Fund"), authorized advisors, and any charitable beneficiaries or successors. While you may not be able to claim more than the \$10,000 annual threshold for charitable donations, you gain the benefit of continuing to grow your donation into a larger amount and dealing it out to charities as you see fit.

### **Qualified Charitable Distributions**

A bigger question comes when considering required minimum distributions (RMD) once you reach the age of 70½. If the government is forcing you to withdraw money you may not need from your investments, wouldn't you want to know that you can directly donate any portion (up to \$100,000 yearly) to non-profit organizations? This is called a qualified

charitable distribution (QCD), which fulfills your RMD without increasing tax liability. ([Kiplinger, January 2018](#)) If performed correctly, a QCD will prevent that portion of income from ever appearing on your tax return. This is a notable tax advantage, even for those who are continuing to itemize their donations, because many costs such as Medicare Part B premiums are based on MAGI (Modified Adjusted Gross Income), which is calculated before any deductions. ([Medicare.gov 2018](#)).

## Appreciated Securities

What if you have appreciated securities, such as stocks, bonds, or mutual funds, that are not in a retirement account which you wish to donate towards your church? Selling your securities after they grow in value means your sale may be subject to federal long-term capital gains taxes up to 20% and the Medicare surtax of 3.8%. If you sell a set of securities that originally cost \$100,000, but over time the value of the securities rose to \$150,000, then you could be liable for up to \$11,900 in federal long-term capital gains taxes.

So, how do you reduce long-term capital gains taxes? By donating your appreciated security to your church before selling them, the church then has the option to either hold the security to grow or, more commonly, sell the security themselves, incurring no taxes as a non-profit organization. It also means you may be able to take a deduction for the full market value of the donated security. This would allow you to avoid capital gains taxes and provide even more value to your church through your generous donation.

If you have questions or concerns about how to set up a donor-advised fund, arrange a qualified charitable distribution, or donate appreciated securities to your church, our team at Bettendorf Financial Group is ready to assist you at no cost. We are proudly donating our resources to help generous donors like yourself in supporting your local church.

Call Bettendorf Financial Group at (563) 441-9903 and ask to speak to Doug Wier CLU ChFC or Dan Wier.

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