

## Charitable Giving Strategies

Charitable giving is one of the most effective ways to promote and sponsor positive change for the betterment of others and for society. Charitable giving is your direct contribution to positive change and perhaps a way to establish a long lasting legacy. Having the right charitable giving strategy in place can be both personally and financially rewarding for you and the causes you may believe in or be passionate towards.

To help you begin the discussion on charitable giving, we discuss three strategies. As always, please consult a financial professional and/or legal professional before pursuing any strategy.

### **Donating/Giving Appreciated Securities**

Donating appreciated securities such as stocks, bonds, and mutual funds, has become one of the easiest and more popular ways to give. Directly donating appreciated securities to a charity affords you the ability to contribute your desired amount without having to sell securities that can create a taxable event if capital gains are realized. Avoiding capital gains taxes becomes even more important for income earners in the highest tax bracket as the current Federal rate on capital gains is 20 percent with an additional 3.8 percent on investment income.

If you itemize your charitable contributions, donating appreciated securities allows you to claim their fair market value as an income deduction for long-term held positions. Depending on the type of charitable donation, the Internal Revenue Service (IRS) may allow you to deduct up to 50 percent of your adjusted gross income (AGI).

If you have highly appreciated securities with missing cost basis, it can be advantageous to

donate those securities directly to charity as it would eliminate the hassle of searching for the original cost basis or claiming them as zero basis assets.

### **Donor Advised Funds**

Donor advised funds (DAFs) are charitable giving vehicles administered by a public charity to manage donations on your behalf. The DAF takes your tax deductible donation and makes specific charitable gifts in accordance with your wishes.

Just like a traditional charity, a DAF gives you the ability to contribute cash or appreciated securities allowing you to minimize taxes on capital gains. However, DAFs differ in that you retain control of when those contributions are distributed to your chosen charities. In other words, you can contribute to a DAF today and receive the tax deduction for the current year. The key difference being that you do not have to distribute the donated assets in the same year you donated them to the DAF.

DAFs can be advantageous in a year with higher than normal income, perhaps from a large bonus, or a capital gains liability from the sale of a home or business. The DAF allows you to take an income deduction without the added pressure of vetting specific charities.

### **Charitable Remainder Trust**

A charitable remainder trust (CRT) is a type of irrevocable living trust with an assigned income beneficiary (you) and a remainder beneficiary (a charity). For charitable purposes, you can donate securities or assets into the CRT allowing you to sell highly appreciated assets to minimize capital gains. Additionally, a CRT allows you to minimize



the size of your overall estate by donating a portion of it. The advantage provided by a CRT is it allows you, the income beneficiary, to draw an income from the donated assets during your lifetime. As stated in the name, any remaining assets upon your passing are distributed to the remainder beneficiary, in this case, a charity or multiple charities.

While the ability to draw an income stream from your donated assets can be extremely attractive, it is important to remember that setting up and maintaining a CRT takes a fair bit of work. An attorney will be needed to create the trust document, annual reporting and compliance will be required, and limits will be placed on how much you can draw from the CRT in any given year.

#### **Food for Thought: Non-Traditional Assets**

Depending on the administrative capabilities of the particular charity you choose, you may be able to donate and incorporate non-traditional assets in your giving strategy. Non-traditional assets may include art, collectibles, private company stock or restricted stock, real estate, and many other illiquid assets. Donating non-traditional assets has a few distinct advantages. First, non-traditionally assets often have very low cost basis and donating these assets allows you to forego the capital gains tax liability. Second, your donation will be valued at its fair market value. Third, donating a non-traditional asset provides you a means to dispose of what could possibly be a highly illiquid asset.

When seeking to donate non-traditional assets, it is of utmost importance to seek the guidance of a legal and tax professional as there may be specific laws and regulations concerning your donation or the specific asset in question.

---

Paragon Financial Partners, Inc. is a Registered SEC Investment Advisor. This write-up is for informational purposes only and should not be considered as a solicitation or offer to purchase or sell any securities. The financial strategies and guidelines discussed herein may not be appropriate for everyone as each individual circumstance is unique. Please review all tax information with your tax professional. Please review all legal information with your legal professional. If you have any questions or would like to speak with us, please contact us by phone at (310) 557-1515 or by email at [info@paragonfinancialpartners.com](mailto:info@paragonfinancialpartners.com).