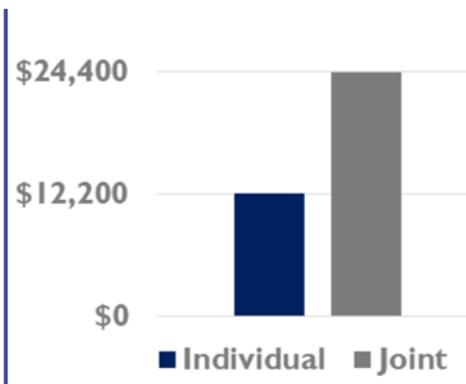


Charitable Giving + Tax Savings = Win / Win

People are unique and each person has their own motivations for charitable giving. Whether it be an alignment to a particular mission, a desire to make a difference, overall personal satisfaction, family upbringing, or their personal religious beliefs, many people feel good about giving to a charity of their choosing. Another consideration, not mentioned above, is taxes. Taxes permeate every area of our financial lives – charitable giving included. However, purely saving money on taxes shouldn't be the sole driver of charitable giving as giving away \$1 to save less than \$1 makes little "financial sense" on its own. Despite this fact, people have and continue to give! It is estimated that in 2018 a total of \$428 billion was given to U.S. charities [1] – that is billion with a B. Although these charitable gifts weren't given purely to save tax dollars, we at JVL Associates believe that our clients can be purposeful with their charitable giving - doing some good with their resources AND saving tax dollars in the process!

**\$428 Billion given
to U.S. Charities
in 2018**



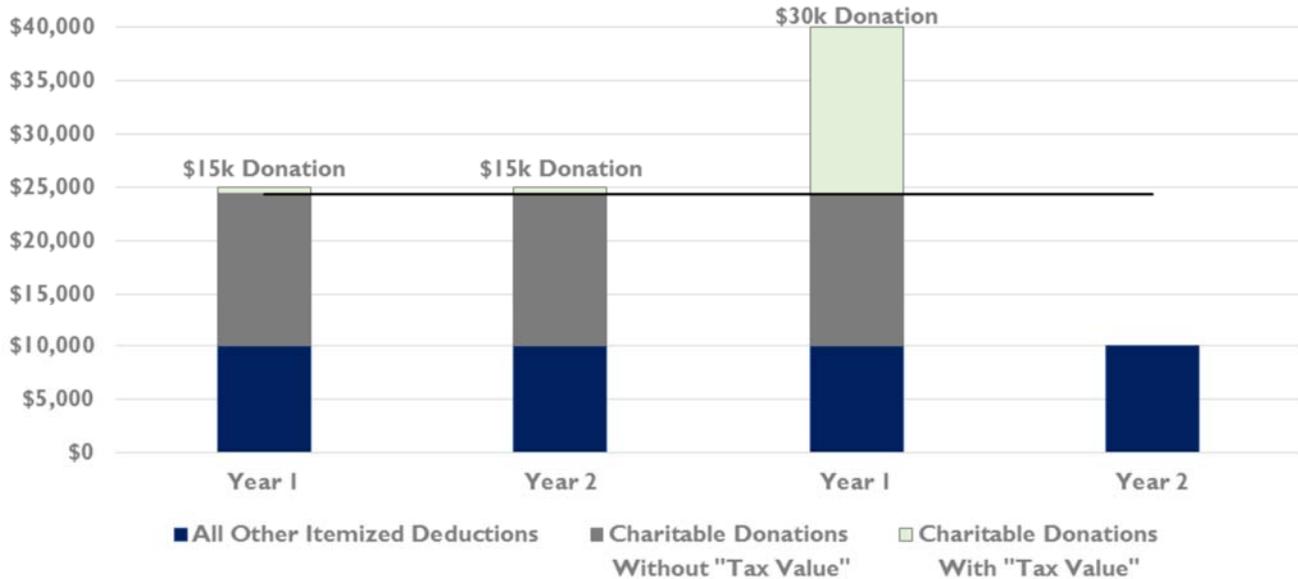
To start, we need to revisit one of our previous newsletters from March 2018 which focused on taxes (<http://jvlassociates.com/jvl-newsletters>). In that newsletter, we highlighted some of the recent changes in tax law. More specifically, in 2017 personal exemptions were eliminated and the standard deduction was nearly doubled which significantly reduced the number of taxpayers who receive a tax benefit from itemizing their charitable donations. There were also changes to the deductibility of medical expenses, state and local taxes, and mortgage interest. Currently the standard deduction stands at \$12,200 for individual filers and \$24,400 for joint filers.

Why does this matter? By increasing the standard deduction, the amount of "free" deductions was raised thereby decreasing the "value" of those deductions which were previously allowed to be itemized i.e. charitable donations. For example, considering no other itemized deductions, it now takes approximately 2x the amount of charitable donations in order to receive a tax benefit compared to tax years prior to the tax changes. With the increase in the standard deduction, it was estimated that the number of itemized returns would decrease from a high of 46 million in 2017 to 18 million in 2018 and that 90% of all tax returns would utilize the standard deduction. [2]

So now what? Even with the increased standard deduction, people are likely to continue to give to their favorite charities since taxes have not been the primary driver. The question then remains:

How can one we help clients be purposeful in their giving in order to ALSO save tax dollars?

Bunching – One of the easiest ways to take advantage of the change in tax code is by combining charitable donations from multiple years into one tax year by “bunching” donations. This strategy involves having the necessary cash flow to allow for multiple years of charitable donations all at once.



[3]

By combining multiple years of donations into one someone could potentially itemize in one year and claim the standard deduction in the other year. Thereby utilizing all of the “free” deductions in one year and maximizing their actual itemized deductions in the other year - saving tax dollars.

| | No Bunching | | Bunching | |
|-----------------------------------|------------------|------------------|------------------|------------------|
| | Year 1 | Year 2 | Year 1 | Year 2 |
| All Other Itemized Deductions | \$ 10,000 | \$ 10,000 | \$ 10,000 | \$ 10,000 |
| Charitable Donations | \$ 15,000 | \$ 15,000 | \$ 30,000 | \$ - |
| Total Itemized Deductions | \$ 25,000 | \$ 25,000 | \$ 40,000 | \$ 10,000 |
| Standard Deduction | \$ - | \$ - | \$ - | \$ 24,400 |
| Tax Savings at 32% Bracket | \$ 8,000 | \$ 8,000 | \$ 12,800 | \$ 7,808 |

[3]

We have assisted clients in thinking through multi-year charitable gifting strategies that calculate the tax savings by moving the year of contribution around. Another item - if you plan to make a larger year end charitable contribution, it would be wise to consult with your financial or tax professional and determine if it would make more “tax sense” to make the gift in January, 2020 than in December, 2019.

Donating Appreciated Assets – Another great tax idea is to donate appreciated assets instead of cash. With the 2019 run up in the stock market, gifting a stock that has appreciated in value can provide more tax benefits than gifting cash. For appreciated assets held longer than one year (i.e. think stocks and bonds or even privately held stock and real estate), not only is the fair market value of the property realized as a donation, the capital gains tax is also avoided on the difference between the asset’s value and its tax basis - a double savings on tax dollars. It is important to note that the deduction for charitable contributions is limited by adjusted gross income (AGI) with cash having a 60% limit based on AGI and appreciated assets being limited to 30% of AGI.

In the example below, we assume a stock is worth \$100k carrying \$40k of cost basis and \$60k of net unrealized appreciation. In this example, selling the stock and subsequently donating the after tax proceeds to charity not only results in realizing the gain and the resulting \$9k tax bill (less money for charity), but it also results in a smaller itemized deduction (tax savings)...

| | Sell & Donate to Charity | Direct Donation to Charity |
|--|---|---------------------------------------|
| Fair Market Value of Appreciated Asset | \$ 100,000 | \$ 100,000 |
| Long-term Capital Gains Tax - 15% | \$ 9,000 | \$ - |
| Charitable Donation | \$ 91,000 | \$ 100,000 |
| Tax Savings at 32% Bracket | \$ 29,120 | \$ 32,000 |
| Tax Benefit of Direct Donation: | | |
| \$9,000 LTCG Not Realized + \$2,880 Difference in Tax Savings | | \$ 11,880 |

[3]

Donor Advised Fund or Foundation – Charitable tools such as using a donor advised fund, a community foundation, or a private family foundation can be used to accomplish longer-term gifting / tax strategies. These vehicles allow for a current year tax deduction for the assets donated to them but also allow the flexibility to disburse funds to qualified charities over time or even invest the funds and grow them for distributions over multiple years. We have assisted clients and utilized these vehicles to “take advantage” of higher tax brackets in high income tax years—i.e. bonus, deferred compensation or asset sales.

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Total |
|--------------------------------------|-------------------|------------------|------------------|------------------|------------------|------------------|-------------------|
| All Other Itemized Deductions | \$ 10,000 | \$ 10,000 | \$ 10,000 | \$ 10,000 | \$ 10,000 | \$ 10,000 | |
| Charitable Donations | \$ 100,000 | \$ 15,000 | \$ 15,000 | \$ 15,000 | \$ 15,000 | \$ 15,000 | \$ 175,000 |
| Total Itemized Deductions | \$ 110,000 | \$ 25,000 | |
| Standard Deduction | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | |
| Tax Bracket | 37% | 22% | 22% | 22% | 22% | 22% | |
| Tax Savings | \$ 40,700 | \$ 5,500 | \$ 5,500 | \$ 5,500 | \$ 5,500 | \$ 5,500 | \$ 68,200 |
| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Total |
| All Other Itemized Deductions | \$ 10,000 | \$ 10,000 | \$ 10,000 | \$ 10,000 | \$ 10,000 | \$ 10,000 | |
| Charitable Donations | \$ 175,000 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 175,000 |
| Total Itemized Deductions | \$ 185,000 | \$ 10,000 | \$ 10,000 | \$ 10,000 | \$ 10,000 | \$ 10,000 | |
| Standard Deduction | \$ - | \$ 24,400 | |
| Tax Bracket | 37% | 22% | 22% | 22% | 22% | 22% | |
| Tax Savings | \$ 68,450 | \$ 5,368 | \$ 5,368 | \$ 5,368 | \$ 5,368 | \$ 5,368 | \$ 95,290 |

[3]

IRA Qualified Charitable Distribution –

For those individuals 70.5 and older, a qualified charitable distribution (QCD) is another tax strategy to consider. A QCD is a distribution from an IRA owned by someone 70.5 or older and paid directly from the IRA to a qualified charity. This type of distribution can satisfy all or part of the required minimum distribution for the tax year. A QCD is currently limited to \$100,000 annually per person. The tax savings are related to the fact that the QCD is not included as income on the IRA owner's tax return. As mentioned previously, many filers now utilize the standard deduction which negates the benefit of a distribution and subsequent donation. By utilizing a QCD the tax payer can continue to utilize the standard deduction and also receive the tax benefit from the charitable contribution since the amount is not included in their taxable income .

| | No QCD | QCD |
|-----------------------------------|------------|------------|
| Income Before RMD | \$ 100,000 | \$ 100,000 |
| Required Minimum Distribution | \$ 100,000 | \$ 80,000 |
| Qualified Charitable Distribution | \$ - | \$ 20,000 |
| Adjusted Gross Income | \$ 200,000 | \$ 180,000 |
| All Other Itemized Deductions | \$ 10,000 | \$ 10,000 |
| Itemized Charitable Donations | \$ 20,000 | \$ - |
| Total Itemized Deductions | \$ 30,000 | \$ 24,400 |
| Tax at 32% Bracket | \$ 54,400 | \$ 49,792 |

[3]

Charitable giving and the necessary tax planning that comes with it is a significant part of managing someone's overall finances. The strategies outlined above are a few of the more common ways to realize tax savings from your charitable giving, but this list is not all inclusive. In addition to these examples, there are also advanced strategies such as charitable remainder trusts, charitable lead trusts, gift annuity, or pooled income funds to name a few. At JVL Associates, we work closely with our clients and their tax professionals in order to help our clients make informed financial decisions and make the most "tax sense" from their charitable donations.

If you know of someone who could benefit from our services, please pass our name along. We would enjoy sharing out experience with others.

All of our newsletters are archived on our website at www.jvlassociates.com.

By: Team JVL

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 Chad Soukup, CPA, CFP®

References:

- [1] Information obtained from: <https://givingusa.org/giving-usa-2019-americans-gave-427-71-billion-to-charity-in-2018-amid-complex-year-for-charitable-giving/>
- [2] Information obtained from: <https://taxfoundation.org/90-percent-taxpayers-projected-tcja-expanded-standard-deduction/>
- [3] All referenced examples are purely hypothetical in nature and intended for example only. Multiple assumptions were made for simplicity. The examples do not include state and local taxes.

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