Six Steps to Plan Your Charitable Giving

If you have money to give to causes you care about, a planned giving strategy can help boost the impact of your donations. Consider these steps to get started.

1. Define your charitable goals

Identify the causes that matter most to you and align your giving with your values, to help ensure your contributions are meaningful and impactful. Think about what motivates you — is it a desire to give back to your local community or help those who are less fortunate? Maybe you are passionate about arts and education. Giving from the heart is not only personally satisfying, but it can also drive a long-term commitment.

2. Evaluate your financial situation

Assess your income, expenses and overall financial health to determine how giving can fit into your overall plan. A financial adviser can help you create a giving strategy that aligns with your unique situation and philanthropic goals. If you have a notably higher income in a given year, it could make sense to make outsized charitable donations and potentially use a charitable structure such as a donor-advised fund or private foundation.

3. Choose the right giving vehicles

Direct donations can be convenient, but you may benefit from other giving vehicles. It's important to evaluate your different options and determine which makes sense for you.

Here are a few to consider:

- **Direct donations.** Simple and straightforward, direct donations allow you to give cash or assets directly to an organization.
- **Donor-advised funds (DAFs).** DAFs are one of the most tax-advantaged ways to manage your philanthropy. DAFs are administered by public charities and allow you to set aside money for giving while keeping administrative responsibilities with the organization of your choice. You can operate as the fund's adviser, recommending how the fund's assets are invested and donated.
- **Private foundations.** Private foundations provide more control over investments and charitable distributions but come with more complex rules and administrative requirements. They require a lawyer and accountant and generally only make sense for very large contributions. Management is handled privately by the primary funder and a team of their choice to manage compliance and reporting. Private foundations are required to give away 5% of their assets' value each year.

4. Maximize tax benefits

In addition to giving back to causes you care about, charitable giving can offer potential tax advantages.

You must itemize your deductions on your tax return for your charitable contributions to be tax-deductible. You may want to consider donating appreciated stocks or other assets to provide an additional tax benefit. These donations are deductible for the full market value of the asset, regardless of the purchase price, and embedded gains are not subject to capital gains taxes. To receive an income tax deduction for the current year, gifts must be completed on or before December 31. Non-cash gifts require a longer lead time, so be sure to work with your adviser as early as possible to have all donations properly settled before year-end.

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If you're over age 70½, you can make a qualified charitable distribution from your traditional IRA. For those over the age of 73, this transfer can also help you meet the minimum distribution requirement. Although these gifts are not tax-deductible, they may still reduce your tax liabilities for the year by keeping you in a lower tax bracket, as they are not included in your income for the year. In 2024, the maximum amount you can give this way is $105,000.

5. Involve family members

Philanthropy is a shared tradition for many families. Having conversations about your charitable priorities with your children is a good way to connect with one another and put your family values in action. Engaging family members in your charitable decision-making can be an impactful way to instill values in younger generations and create a legacy of giving.

Both DAFs and private foundations offer ways to include family members in the process. Although there can only be one adviser at a time for DAFs, you can determine a succession of advisers. For private foundations, you can include family members by appointing them to the board of directors or as trustees of the foundation.

6. Consider planned gifts

Many philanthropic individuals may want to consider a planned giving strategy for longer-term commitments. This can include multi-year pledges, naming charities in your will or setting up charitable trusts. There are also more complex options. Be sure to consult with legal and tax professionals before entering agreements, especially as they may be life-long.

Some of these options include:

- **Gift annuities.** A gift annuity is a contractual arrangement where you give a sum of money to a charity of your choice and the charity pays you a predetermined amount each year for life. These annuities vary based on the charity's policies and other factors.
- **Charitable remainder trusts (CRTs).** A CRT is managed by a trustee and pays you either a fixed amount or percentage of the value of the trust's assets each year after annual evaluation. The amount remaining at the end of the trust's term will pass to charity.
- **Charitable lead trusts (CLTs).** A CLT is essentially the opposite of a CRT. You provide a charity with an annuity or percentage of the value of the trust's assets each year. At the end of the predetermined trust term, your family receives the remainder of assets in the trust if there are any.

Navigating charitable giving strategies and figuring out what aligns with your unique goals and values can be a challenge. Planning ahead can help you make the most of your giving.

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