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TO: OUR CLIENTS AND FRIENDS

FROM: JACKSON M. PAYNE

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RE: FINANCIAL STRATEGIES FOR YOUR LIVES AND BUSINESSES

TAX-SAVVY GIVING

Family Gifts

When gifting to kids and family, dips in asset values create optimal conditions. Depressed values mean you can get more shares out of your estate and into your kids' hands within tax-free gifting limits.

The estate tax exemption is currently at an all-time high, at $12,920,000 per person, or $25,840,000 per couple. It is scheduled to drop to about half that at the end of 2025.

The exemption can be used when passing on assets after death, or during your lifetime. There's probably not going to be a better time to use the exemption than this. Ultimately, the market is going to recover, and the exemption amount is going to be reduced. That will be a double whammy for gifting.

Aside from the exemption, the annual gift tax exclusion rules allow taxpayers to give $17,000 to as many recipients as they want in 2023. A couple with three kids can give each $34,000 this year for a combined $102,000, without triggering gift, estate, or generation-skipping tax.

Charitable Giving

Donating appreciated assets to charity is optimal because it benefits both the donor and the charity. If your intent is to make a charitable gift of $5,000 and you only paid $1,000 for stock now worth $5,000, you can gift the stock, get the full $5,000 tax deduction, and neither you nor the charity must pay capital-gains taxes when the shares are sold.

If you sold the shares and then gave, the $5,000 in stock would have less value to both you and the charity: After a 23.8% tax bite (20% for long term gains and the 3.8% Medicare tax), you would have $4,048 to give and deduct.

Turning a charitable contribution into a tax benefit is more challenging than it was before 2018, when the Tax Cuts and Jobs Act went into effect. It about doubled the standard deduction, which has since been adjusted annually for inflation to a current $27,700 for couples and $13,850 for singles.

Taxpayers have the option of claiming either a standard deduction on their tax returns or itemized deductible expenses, whichever is greater. But with the high standard deduction, along with a $10,000 cap on allowable deductions for state, local, and property taxes—also passed under the 2018 law—fewer taxpayers find any advantage from itemizing. Currently, over 90% of people don’t itemize their deductions, so they get no tax benefit for their charitable gifts.

To maximize tax benefits, consider bunching years of contributions into a single year. If you gift $10,000 annually, each year you might not exceed the standard deduction, so you lose the tax deductibility of the gift.

If you have high taxable income this year because you rolled assets from a traditional individual retirement account to a Roth IRA—the converted assets are taxable—you may want to bunch deductions into this year.

By contributing your bunched contributions to a donor-advised fund, you don’t have to distribute the assets to charities immediately. Donor-advised funds are essentially a place to harbor charitable dollars that you can pay out in future years.

DAFs are flexible. If you took 10 years worth of gifts and donated to a DAF this year, you get a big tax benefit, and you can distribute from the DAF to charity over the next 10 years if you want.

Older taxpayers with IRA assets can benefit from charitable gifts even if they don't itemize, by making a so-called qualified charitable distributions, or QCD, from an IRA.

After age 72, when IRA investors must begin annual required minimum distributions, or RMDs, gifts transferred directly from an IRA to a charity can count toward the RMD.

The RMDs often push people into a higher tax bracket. You won't get a tax deduction for your QCD, but the contributed IRA assets won't be added to your taxable income, which is better than a tax deduction.