

Smart Charitable Giving That's Easy and Cuts More of Your Taxes Than The "Write a Check" Route

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Here's a smart way to make charitable donations that's easy and cuts more of your taxes than the regular "write a check, take a tax deduction" route. The tool I recommend is called a Charitable Trust (sometimes also called a Donor Advised Fund). The time needed to set it up? *As little as 5-10 minutes.* Your tax savings? *Can be substantially higher than just writing a check from a cash account.*

Here's how a Charitable Trust works. Sara and Jake Lund are my examples. Age 75, they like to donate to non-profit orgs that support animal welfare. Normally they've been writing checks to various organizations (e.g. <http://animalwelfaresociety.org/> and www.savinggreatanimals.org*) – \$200 here, \$500 there, etc. They get a tax deduction for these contributions on their federal tax return each year since both are 501c3 non-profits.

Here the smart way to make those donations:

1. The Lunds open a Charitable Trust. I'll use Fidelity Investments as an example to illustrate this point. For a minimum of \$5,000, they go to fidelitycharitable.org and follow the easy set-up steps. A few mouse clicks later, they have "The Lund Family Trust" set up to receive a transfer of shares (or cash) to fund this trust.
2. The Lunds hold 200 Apple shares (now worth \$44,000) they bought years ago. They're sitting on substantial gains.

Their cost basis (average Apple purchase price per share) is \$45 per share vs. the current \$220 price per share. They hold these shares in an after-tax account. They'd like to donate 50 Apples shares equivalent (\$11,000).

3. IF they sell 50 Apple shares outright, pay \$1,750 long-term capital gains tax (20% tax rate), they have \$9,250 net to donate to charity.
4. BY CONTRAST, if they use "The Lund Family Trust," they transfer 50 Apple shares to this trust, receive a charitable tax deduction for the full market value of the 50 Apple shares (\$11,000) and *never pay the \$1,750 capital gains tax on these shares*. The Lund Family Trust now has \$11,000 worth of investments to disperse to qualified 501c3 charities. The Lunds can take as long as they like to pass funds on to their charities of choice but they receive a charitable deduction of \$11,000 in the year they funded the 50 Apples shares.
5. When the Lunds decide to donate to The Animal Welfare Society, they go online to the Lund Family Trust and – a few mouse clicks later – they request a check be sent to the 501c3 accredited non-profit(s) of their choice. No more check writing or filling out CC info online!

Here's additional information about how all of this works:

1. I referenced fidelitycharitable.org since their trust minimum is only \$5,000. There are many alternatives. Some other trusts require higher minimums (example: it's \$25,000 at Vanguard Investments). It's also possible to set up a charitable trust through your broker. For example, I use TD Ameritrade Institutional as my custodian for my client accounts; my clients set up charitable trusts and they reside at TD Ameritrade; I don't invoice for management of these trusts – clients pay an outside administrator. This leads me to point 2, below .

2. All trusts charge an administration fee, which varies. Fidelity charges approx. 0.6% per year. As with any mutual fund investment, you pay underlying annual expenses on this investment. Vanguard underlying mutual fund expenses can be as low as 0.09% per year; Fidelity underlying expense ratios on their mutual funds range from 0.015% to over 1%.
3. Once you've deferred funds into a charitable trust, you can't claim a deduction a 2nd time when you draw on the trust to have checks issued to charities.

Here's another benefit if you transfer IRA funds to a charitable trust:

1. If you're over 70 $\frac{1}{2}$ and facing Required Minimum Distributions (RMD) from your IRA but you DON'T need the cash and you prefer to donate the funds, you can direct your RMD to a charity and never pay federal/state tax on your withdrawal. For more information, go to [irs.gov](https://www.irs.gov) and see [Pub. 590-B](https://www.irs.gov/publications/p590-b).

Final Note on Charitable Giving:

www.charitynavigator.org is an essential resource to check how efficiently your donated funds are put to use. For example, The Animal Welfare Society has the maximum 4 star rating for efficient use of funds and transparency. By comparison, The Society for the Protection of Animals (SPCA) varies – some local chapters have the top 4 star ratings and some have a low (unattractive) low 1 star rating. *Some small charities (e.g. Saving Great Animals – a charity my sister founded in Seattle) are too small to secure a “charity navigator” rating. You can verify quality/efficient use of funds for smaller charities by being involved at the local level.