

Charitable Giving Strategy

Coordinating Generosity with Tax Planning

Client: **Mark & Piper Townsend** · Date: **June 2025**

Your Giving at a Glance

Mark and Piper contribute generously each year to their church, community foundation, and alma mater. Below is a snapshot of their current charitable giving and the associated tax impact.

Annual Charitable Giving
\$20,000

Marginal Federal Bracket
24%

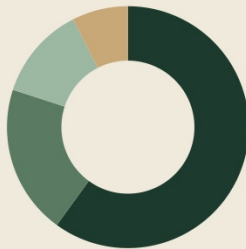
2025 Standard Deduction (MFJ)
\$30,000

Combined Gross Income
\$385,000

Total Itemized Deductions
\$35,800

Incremental Tax Benefit of Giving
\$1,392

Annual Giving Breakdown



- Church**
\$12,000 | 60%
- Community Foundation**
\$4,000 | 20%
- Alma Mater**
\$2,500 | 12.5%
- Other Charities**
\$1,500 | 7.5%

| Itemized Deductions | Amount |
|----------------------------|-----------------|
| Charitable Contributions | \$20,000 |
| State & Local Taxes (SALT) | \$10,000 |
| Mortgage Interest | \$5,800 |
| Total Itemized | \$35,800 |

Where the Opportunity Lies

Most of Their Giving Produces No Extra Tax Benefit Mark and Piper write checks totaling \$20,000 per year to their favorite causes. However, because their non-charitable itemized deductions (\$15,800) fall well below the \$30,000 standard deduction, only \$5,800 of their charitable giving actually pushes their total deductions above the standard threshold. The remaining \$14,200 in donations provides no incremental deduction benefit.

Charitable Deduction: Effective vs. Unutilized



The three strategies that follow work together to ensure every dollar of generosity delivers its full tax benefit: appreciated asset gifting, donor-advised fund bunching, and future QCD planning.

Strategy 1: Donate Appreciated Stock

Mark and Piper hold a diversified equity portfolio with significant unrealized gains. By donating appreciated shares instead of writing a check, they receive a deduction for the full fair market value while avoiding capital gains tax on the appreciation entirely.

| | | | |
|------------------------|-----------------|------------------|--------------|
| Equity Portfolio Value | Cost Basis | Unrealized Gain | Appreciation |
| \$150,000 | \$45,000 | \$105,000 | 70% |

| Attribute | Cash Donation | ★ Stock Donation |
|------------------------------|---------------|------------------|
| Donation Amount | \$20,000 | \$20,000 |
| Charitable Deduction | \$20,000 | \$20,000 |
| Capital Gains Tax Avoided | \$0 | \$2,632 |
| Effective Out-of-Pocket Cost | \$20,000 | \$17,368 |

How the Savings Are Calculated Donating \$20,000 of stock with a 70% embedded gain means \$14,000 of unrealized appreciation is never taxed. At the 15% long-term capital gains rate plus 3.8% net investment income tax (MAGI exceeds \$250,000), the avoided tax is \$14,000 times 18.8% = \$2,632 per year.

Strategy 2: Bunch Giving with a Donor-Advised Fund

Because Mark and Piper’s non-charitable deductions alone fall short of the standard deduction, much of their annual giving is effectively invisible to the tax code. By front-loading three years of

contributions into a donor-advised fund (DAF) in a single year, they create one large itemized year followed by two standard-deduction years.

What Is a Donor-Advised Fund? A DAF is a charitable investment account. Contributions are tax-deductible in the year they are made, and the funds can be granted to qualified charities over time. This separates the tax event (the contribution) from the charitable impact (the grants), enabling strategic timing of deductions while maintaining the same giving schedule to the organizations they support.

| Attribute | Current: Annual Giving | ★ Optimized: Bunch via DAF |
|--------------------------------|------------------------|----------------------------|
| Year 1 Charitable | \$20,000 (cash) | \$60,000 to DAF |
| Year 1 Deductions | \$35,800 (itemize) | \$75,800 (itemize) |
| Year 2 Deductions | \$35,800 (itemize) | \$30,000 (standard) |
| Year 3 Deductions | \$35,800 (itemize) | \$30,000 (standard) |
| 3-Year Total Deductions | \$107,400 | \$135,800 |
| Additional Deductions Captured | \$0 | \$28,400 |
| Tax Savings at 24% (3-Year) | \$0 | \$6,816 |

Total charitable impact remains identical: \$60,000 to the same organizations over three years. The only change is timing, and it produces \$6,816 in additional tax savings.

Combined Impact: Appreciated Stock into a DAF

The most powerful approach combines both strategies: contribute appreciated stock directly into the donor-advised fund. This captures the bunching benefit and the capital gains avoidance simultaneously.

3-Year Combined Tax Savings



Appreciated Stock to DAF
\$60,000

Capital Gain Avoided
\$42,000

Bunching Tax Savings
\$6,816

Cost Basis of Stock Donated
\$18,000

Capital Gains Tax Saved
\$7,896

Total Additional Savings
\$14,712

Net Result Mark and Piper give the same \$60,000 to the same charities over three years. By contributing appreciated stock to a donor-advised fund in a single year, they save an additional \$14,712 in federal taxes — a 25% boost to the efficiency of their charitable giving.

Strategy 3: Qualified Charitable Distributions (Future Planning)

When Mark reaches age 70 and a half, he will become eligible to make Qualified Charitable Distributions (QCDs) directly from his Traditional IRA. This is a powerful long-term planning opportunity that should be built into their overall charitable roadmap today.

Mark's Traditional IRA
\$680,000

Combined IRA Balance
\$1,100,000

QCD Eligibility Age
70.5

Piper's Traditional IRA
\$420,000

Mark's Current Age
62

2025 Annual QCD Limit
\$105,000

Why QCDs Are the Gold Standard for Charitable Retirees A QCD transfers money directly from an IRA to a qualified charity. The distribution is excluded from taxable income entirely. Unlike a standard deduction, a QCD reduces adjusted gross income (AGI), which can lower Medicare premiums (IRMAA), reduce the taxation of Social Security benefits, and preserve eligibility for other income-sensitive tax benefits.

| QCD Planning Consideration | Detail |
|---------------------------------------|---------------------------------------|
| Earliest QCD Year (Mark) | 2034 (age 70.5) |
| Projected IRA at Age 70.5 (4% growth) | ~\$960,000 |
| Estimated First-Year RMD (age 73) | ~\$40,000 |
| Annual QCD Potential | Up to \$20,000 (current giving level) |
| Estimated Annual Income Tax Savings | \$4,800 at 24% bracket |

Summary: Current vs. Optimized Giving

| Attribute | Current Approach | ★ Optimized Approach |
|---------------------------------------|-------------------|--------------------------|
| How They Give | Cash and checks | Appreciated stock to DAF |
| Annual Giving Amount | \$20,000/year | \$20,000/year |
| Deduction Strategy | Itemize each year | Bunch every 3 years |
| 3-Year Total Deductions | \$107,400 | \$135,800 |
| Capital Gains Tax Saved (3-Year) | \$0 | \$7,896 |
| Total Additional Tax Savings (3-Year) | \$0 | \$14,712 |
| QCD Readiness | Not planned | Strategy in place |

3-Year Tax Savings by Strategy Component



Recommended Next Steps

1. Review portfolio holdings to identify the most highly appreciated, long-term positions suitable for donation.
2. Open a donor-advised fund account at a low-cost provider such as Fidelity Charitable, Schwab Charitable, or Vanguard Charitable.
3. Contribute approximately \$60,000 of appreciated stock to the DAF before year-end to capture the bunching benefit for the current tax year.
4. Set up a grant schedule from the DAF to continue annual distributions to church, community foundation, and other charities at the current \$20,000/year pace.
5. Coordinate with your CPA to ensure the stock contribution is properly documented and that you take the standard deduction in the two off-years.
6. Begin planning for Qualified Charitable Distributions as Mark approaches age 70.5, including a review of IRA balances and projected RMD obligations.

IMPORTANT DISCLOSURES

This analysis is for illustrative purposes only and does not constitute tax, legal, or investment advice. All figures are based on hypothetical assumptions and the 2025 federal tax code. Tax laws are subject to change. Charitable contribution deductions are subject to AGI limitations (generally 60% of AGI for cash contributions and 30% of AGI for appreciated property contributions to public charities). Consult a qualified tax professional before implementing any strategy discussed in this report.