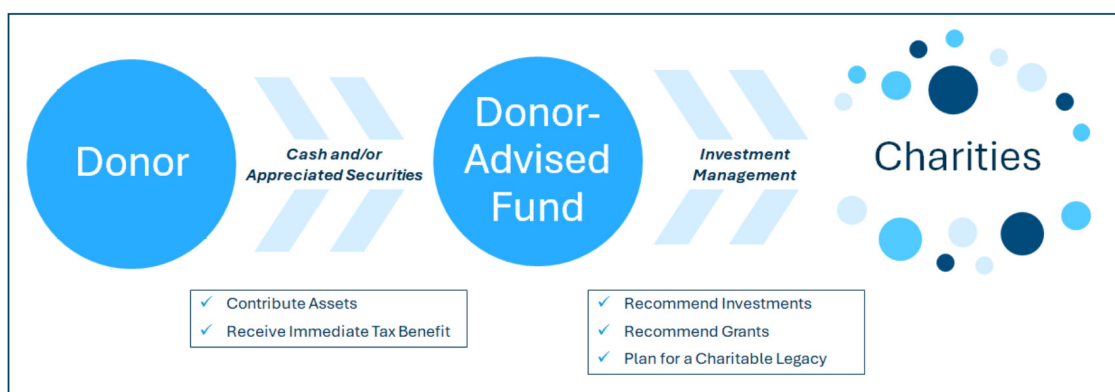


## Charitable Giving Using Donor-Advised Funds and IRAs

As the end of the year approaches, we will all receive many solicitations to make charitable gifts. These can be anything from small cash donations to larger gifts of stock or other property. When considering your year-end charitable giving, here are some tax-smart ways to give to charity.

Donor-Advised Funds (DAFs) offer one of the most tax-efficient ways to make charitable contributions. They are easy to set up, fund, manage, and use. Most DAFs will accept a wide range of property, including real estate or even closely-held business interests. But cash and securities are the most common types of assets given to DAFs. And a DAF can be invested in a portfolio of securities managed by 1919 Investment Counsel if it meets a minimum size.



One of the most tax-efficient ways to make a charitable gift is to donate appreciated marketable securities that you have held for more than one year. Selling appreciated securities can incur as much as a 20% federal capital gains tax plus a Net Investment Income tax of 3.8% plus applicable state taxes. If you itemize deductions, the IRS allows you to donate appreciated securities and claim a charitable deduction for the full fair market value of those appreciated securities without owing any tax. If you make the donation to a DAF, you can invest the full value of the donated securities and direct charitable distributions over time.

### Grantmaking From a DAF

Once your DAF has been funded, you can recommend charitable donations to the organizations of your choice. In most cases, as long as you have chosen qualified public charities, the DAF administrator will honor your request and send the funds to your selected charity within 7 to 10 business days. Major DAF platforms also make this experience user-friendly by allowing you to allocate charitable dollars from your computer or by using a mobile app. For people wishing to do philanthropic work over a period of time, DAFs are a good alternative to private foundations, which are more complex and costly to set up and maintain. Unlike a private foundation, a DAF is not required to distribute 5% of its value to charity every year. Nonetheless, DAF administrators do require that individual DAF accounts make sufficient distributions at least once every two years; and they can even force a distribution if the DAF advisor has not done so. One nice feature of a DAF is that current rules allow a private foundation to make qualifying distributions to a DAF. This technique allows the foundation's donors and managers to remain anonymous and enhances ease of grantmaking.

### Basic Tax Rules of Charitable Giving

For charitable gifts, the amount you can claim as an itemized deduction is limited to a percentage of your adjusted gross income (AGI). Under current rules, cash contributions to qualified charities are deductible up to 60% of AGI. Contributions of long-term capital gain property (i.e., appreciated property held for more than one year) may be deducted up to 30% of AGI. Contributions that exceed these limits may be carried forward for up to five years.

Public charities are the most common type of charity, such as a church, school or museum. DAFs also qualify as public charities. Charities are known as "501(c)(3) organizations" after a section of the Internal Revenue Code granting them tax-exempt status. Private Foundations, which don't receive broad public support, are also classified as 501(c)(3) organizations, but they are subject to many complex rules under the tax code and stricter deduction limits.<sup>1</sup>

Charitable Deduction Limitations as a Percentage of AGI		
Type	Public Charity/DAF	Private Foundation
Cash	60%	30%
Qualified Long-Term Capital Gain Property	30%	20%

As we said, charitable contributions are tax-deductible if you itemize deductions on your tax return. However, with the increased standard deduction introduced by the Tax Cuts and Jobs Act of 2017, fewer Americans can itemize. In 2024, the standard deduction is \$14,600 for single taxpayers and \$29,200 for married couples filing jointly. So, total deductions must be over those figures in order to itemize in a given year. And with the \$10,000 cap on the deduction for state and local taxes, it's harder to get there. The other big item that Americans can deduct is home mortgage interest, but that too is more limited than it used to be. So, being able to bunch your charitable gifts in a single year allows you to get over the standard deduction hurdle and take advantage of the charitable deduction.

### Substantiation Requirements

Federal tax rules require that a taxpayer be able to substantiate tax deductions with adequate records. For charitable donations of \$250 or more, the IRS requires that you obtain a “contemporaneous written acknowledgment” stating the amount of the contribution and the value of any goods or services received in exchange (such as the value of a meal if you attended a fund-raising dinner). If your tax return is audited and you do not have a contemporaneous written acknowledgment, your charitable deduction may be disallowed. The IRS has recently taken an aggressive approach enforcing this rule and has prevailed in court. So, it is critical that you maintain proper documentation for your charitable contributions.

*It is critical that you maintain proper documentation for your charitable contributions.*

### Potential DAF Reforms

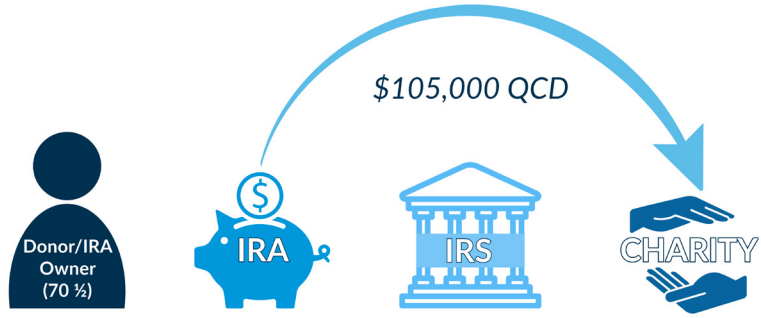
Fortunately (or unfortunately), not much has been happening in Congress lately. Nevertheless, there is always the possibility that tax rules could change. A major tax bill will be negotiated next year as 2025 winds down. As recently as 2021, a legislative proposal known as the Accelerating Charitable Efforts (“ACE”) Act was introduced. The bill, which had bipartisan support, has languished but could be revived in the future. If passed, the ACE Act would require some DAFs

set up with community foundations to make a 5% minimum annual payout and terminate within 50 years. The ACE Act also would require other types of DAFs to terminate and fully distribute within 15 years of funding. The ACE Act would limit the tax deduction for contributions to a DAF if the DAF doesn't meet such requirements. Further, the Act would impose punitive taxes on DAF sponsors if funds are not distributed to charity in a timely way. The ACE Act also includes proposed reforms that would affect private foundations, such as prohibiting foundations from contributing to DAFs.

Like most tax laws, these proposals are complex and full of exceptions. While it is unknown if or when these proposals will be enacted, we wanted to alert you to the possibility that the rules affecting DAFs could change in the future and what that could look like. The ACE Act, if enacted, would probably be effective on a prospective basis and should not affect past contributions to DAFs.

### IRAs—Qualified Charitable Distributions

In 2024, IRA owners over age 70 ½ may donate funds from their traditional IRA up to \$105,000 directly to charity without paying tax. This is known as a Qualified Charitable Distribution (QCD). Married couples also can take advantage of this rule for a total of \$210,000 if both spouses are over age 70 ½. A QCD must go directly from your IRA to a qualified charity. The withdrawal is not included as taxable income but it is reported on your 1040 (no itemized deduction is claimed for a QCD). If the IRA owner is old enough to take Required Minimum Distributions (RMDs), a QCD will satisfy the RMD at least up to the amount of the QCD. Note that DAFs and private foundations are not qualified recipients of QCDs. In addition, nothing of value can be received in exchange for the payment to charity. To qualify as a withdrawal for this year, the QCD must be made (and the check cashed) by December 31.<sup>2</sup>



## IRAs—Rollover to a CRT or Charitable Gift Annuity

Effective in 2023, the SECURE Act 2.0 allows retirement account owners a one-time tax-free distribution of up to \$50,000 from a retirement account to a charitable remainder trust or a charitable gift annuity that benefits the grantor or their spouse. Funds may not be added to an existing charitable remainder trust, however.

As to CRTs, this new rule seems to be of little benefit given the complexity and cost associated with setting up and maintaining a CRT. However, setting up a charitable gift annuity directly with a charitable organization may be more appealing. Charitable gift annuities are simple contractual arrangements between the donor and the charity. The charity is obligated to pay an annuity to the donor for his or her lifetime. As a result, it could work quite well for someone with a long lifespan.

## IRAs—Roth Conversion Combined with a DAF Contribution

Converting a traditional IRA to a Roth IRA will trigger an automatic tax liability. This tax liability can be reduced by making a charitable contribution of appreciated stock outside of your IRA in the same year. As long as the contribution does not exceed the AGI limitation, the tax on the conversion can be reduced and your tax bracket could be as well. A DAF is the perfect vehicle for this type of planning.

## Estate Planning

DAFs can be used as part of your estate planning. They may be named in your will or trust as a charitable beneficiary. Moreover, DAF rules permit you to specify a successor to yourself who can advise on grantmaking after you pass away. The DAF administrator also can be directed to follow certain grantmaking parameters or a timeline after your death. In these ways and others, naming a DAF instead of a particular charity offers tremendous flexibility.

So, as the year winds down and you consider your charitable giving and philanthropy, we invite you to think about the strategies mentioned above. Leveraging the benefits of a DAF and using your IRA to make a Qualified Charitable Distribution are great ways to do tax-efficient charitable giving. Reach out to your Portfolio Manager or Client Advisor at 1919 Investment Counsel for more information on charitable giving and philanthropy.

**This summary is as of November 2024 and by no means an exhaustive treatment of this subject. This information is subject to change without notice.** If you have questions about the deductibility of a donation, we recommend you consult an attorney or accountant before making the donation.

### FOOTNOTES

<sup>1</sup> Note that some types of property donated to charity may not be eligible for a fair market value deduction and will be limited to the donor's cost basis. Deductibility rules also vary depending on whether the organization is a public charity or private foundation for tax purposes. Check with your tax advisor about any tax questions you may have.

<sup>2</sup> QCDs cannot be made directly from a 401(k) but funds can be rolled over from a 401(k) to an IRA and then paid to charity. The QCD limit is adjusted annually for inflation. While the age for RMDs has changed recently (now age 73), the age for QCDs has not changed (it's still 70 ½).



**WARWICK M. CARTER, JR.**  
*Managing Director, Senior Wealth Advisor*

Warwick M. Carter, Jr. is a Managing Director at 1919 Investment Counsel based in New York. As a Senior Wealth Advisor, his primary focus is generational wealth planning for high net worth individuals and families. He also advises on philanthropic planning. When giving advice, Warwick takes a comprehensive approach to assessing all aspects of a client's tax, financial and family situation. Warwick works closely with Portfolio Managers and Client Advisors in all of our offices to integrate wealth strategies with a client's investments. He regularly meets with outside advisors to devise appropriate solutions that will help grow wealth in a tax-aware way over the long term.

Outside of the office, Warwick has considerable experience in philanthropic planning as well as managing foundations. He has advised some of the largest foundations in the country. Warwick served on the Board of Trustees of the HealthCare Chaplaincy Network in New York and was a member of the Board of Visitors of the Columbus School of Law at The Catholic University of America in Washington, D.C. Additionally, Warwick is a member of the New York State Bar Association and the Society of Trust and Estate Practitioners (STEP).

Warwick joined 1919 Investment Counsel in 2019. Prior to joining 1919, he served as a Senior Trust Officer for J.P. Morgan Private Bank in New York and Washington, D.C. He was subsequently National Head of Trusts and Estates at Fiduciary Trust Company International for nearly six years. He also launched a private consulting practice advising RIAs on trusts and estates matters. Earlier in his career, he practiced law in New York.

Warwick is a graduate of Denison University and the Columbus School of Law at The Catholic University of America. He also holds a master's in taxation from Georgetown University.

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