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BLB&B Advisors, LLC
FINANCIAL GUIDANCE SINCE 1964

MONEY notes

We at BLBB Advisors are strong proponents of giving back to the community through time, talent, and treasure. In addition, our private foundation, BLBB Charitable, the giving arm of our firm, offers our employees an opportunity to participate in our employee matching gift program. We also frequently incorporate charitable giving goals, objectives, and strategies into our clients' financial plans.

All too frequently, though, we see clients simply mailing in a check or doing a quick on-line donation via a credit card in order to make a charitable donation. It is understandable why giving cash in these ways is so prevalent – it is usually the easiest and fastest way to donate. But, it is important to keep in mind that a cash donation is not always the best option for you to use. In fact, for more significantly sized donations (anytime you get into four digits or more), cash is usually the least cost-effective way to donate funds.

1. Cash donations are made with after-tax dollars. You earn the funds, they are taxed, and then you turn around and donate those funds to a charity. Why not consider donating pre-tax funds instead? You will avoid being taxed on the funds you are donating and the charity receiving your funds, as a registered 501(c)(3) non-profit entity, will not be taxed either.
2. As we explained in our March 2023 Money Notes, the 2023 tax changes included an increase in the standard deduction. This means that many people will not exceed the standard deduction, and therefore, will not be able to itemize their allowable deductions (including charitable contribution) at all. In that case, you don't reap the federal tax benefit by giving any gifts under the itemized amounts.

WHAT ARE SOME OTHER OPTIONS?

Appreciated Assets

If you own investments outside a qualified retirement account, they may have appreciated over the years. If so, you might want to consider selling some of them to diversify your portfolio or to reduce risk. Selling appreciated assets means paying federal and, where applicable, state capital gains taxes. Before you sell, consider donating the appreciated assets directly to a qualified charity. Many nonprofit organizations can accept such gifts[1]; it is simply a matter of getting their brokerage information and sharing it with your financial advisor. When you donate appreciated assets, you can avoid paying capital gains tax on the sale and you can take a tax deduction for the full fair market value of the asset. Also, when the charity receives and sells your appreciated gift, they generally will not be subject to capital gains taxes.

For example, say you own 50 shares of a stock that you bought for $10,000 but is now worth $40,000. If you sold that stock, you would have $30,000 in taxable gains. Rather than sell, you could give a portion of those shares to a charity, avoid the capital gains tax, and likely donate more to the charity than if you had to use funds from your bank account.

Qualified Charitable Distribution (QCD)

Individuals who are required to take annual distributions from their pre-tax retirement accounts (IRAs, 401(k) plans, etc.) These required minimum distributions (RMD) are taxable as ordinary income, and thus will increase your adjusted gross income and perhaps your overall tax bracket.

To offset the tax impact of RMDs, consider donating funds from your qualified plan directly to charities. Anyone over 70½ (which includes those not yet required to take RMDs) is eligible. Known as a Qualified Charitable Distribution or QCD, taxpayers can elect to transfer up to $100,000[2] from their IRA or 401(k) plan directly to charity. This is an excellent strategy for many people, even when giving smaller amounts. By giving directly from your qualified retirement plans, you eliminate taxes on the amount given regardless of whether you itemize or take the standard deduction. Additionally, unlike other charitable deductions, QCDs also reduce your Adjusted Gross Income (AGI). This is important because your AGI is a factor in many other tax calculations, so reducing it can also reduce your Social Security taxes and Medicare premiums, increase your medical expense deductions, and help you qualify for certain tax credits.

Donor Advised Funds and Grouping Donations

As we explained in our March 2023 Money Notes, another tax-forward option is to donate through a Donor Advised Fund (DAF) and "bunch" your charitable gifts by contributing large amounts every other year into your DAF.

A DAF is a program sponsored by a public charity (affiliated with a sponsoring organization, such as a community foundation or an investment advisory firm) that allows a client to make an irrevocable charitable contribution, take advantage of an immediate tax benefit, and then recommend grants from the DAF over time so that your charities do not miss your annual gifts.

Remember, however, that once you donate funds to a DAF, those funds are legally owned and managed by the supporting organization and you merely can "recommend" grants, with final approval and compliance by the sponsoring organization.

Charitable Giving That Also Generates Income for You or Loved Ones

There are a host of charitable vehicles that can easily allow you to give large amounts to charity, while also either generating income for you or your loved ones (either now or in the future). While most of these vehicles are for individuals who are looking to make a significant donation (at least six figures), one that can also be created with fewer assets is a Charitable Gift Annuity (CGA).[3]

A CGA is essentially a contract between a donor and a nonprofit organization that provides the donor a fixed income stream for life in exchange for a sizeable donation to the organization at the end of your life. Not all nonprofit organizations have the means to handle this type of vehicle.[4] The way a CGA works, in general, is that a donor irrevocably transfers assets to a nonprofit organization, which then promises to make fixed annuity payments to the donor and/or a designated beneficiary for life.[5]

The donor can claim an income tax deduction in the year the gift is made (based on the remainder value that will pass to the charity). When the donor or designated beneficiary dies, any remaining assets pass to the charity.

Other charitable vehicles that can generate income include Charitable Remainder Trusts (CRTs) and Charitable Lead Trusts (CLTs). A CRT is an irrevocable trust that generates a potential income stream for a donor or their beneficiaries, with the remainder of the trust assets going to one or more charities. CRTs can be set up to pay a fixed percentage of

[continued]

the trust to the donor or designated beneficiary or a fixed dollar amount. You do not need to have a nonprofit handle any of the logistics for a CRT, but you will need legal counsel to establish a trust and a trustee to manage the trust. A CLT is a similar vehicle that works in reverse to a CRT: in other words, the income stream is paid to a charity, while the remainder of the assets pass to your heirs (outside your estate). There are several ways to structure, fund and operate these types of vehicles.

As you can see, there are more beneficial options than giving cash, and therefore, cash really isn't king! With a philanthropic advisor on our team, BLBB Advisors can help you determine what might work best for you and your family. If you are interested in learning more and exploring if any of these solutions might work for you and your family, please contact your BLBB financial advisor (215-643-9100).

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[1] If you wish to donate to a small nonprofit that cannot handle a gift of appreciated assets, another option is to donate that asset to a Donor Advised Fund (DAF) and then distribute the funds to the nonprofit.
[2] Indexed for inflation starting in 2024. Additionally, any amount donated above your RMD does not count towards satisfying a future year's RMD.
[3] One can also donate appreciated assets to establish a CGA or other "split interest" gifts.
[4] Usually larger institutions, such as "meds and eds," have expertise in this area. There are also supporting organizations that will manage such funds with a third-party nonprofit beneficiary at the end.
[5] Annuity payments vary from charity to charity and are based on several factors, including the amount of the gift, as well as the donor's age.

L to R: Robb Parlanti, Ed Barnes, Clif Haugen, John Lawton, Laura Brewer, Dean Karrash, Brian Gallagher, Brianna Barnes March, Nick Bucci, Bob Flood, Chris Perry

BLB&B Advisors, LLC
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www.BLBB.com
215.643.9100

Mailing address
P.O. Box 1010, Montgomeryville, PA 18936

Street address
103 Montgomery Avenue, Montgomeryville, PA 18936

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