BLBB Advisors
FINANCIAL GUIDANCE SINCE 1964℠

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Expanding Your Nonprofit's Funding Horizons:

Smart Donation Strategies

Nonprofit leaders know the importance of not only raising funds for their organization but also growing their donor base and diversifying their funding streams. One of the best ways to accomplish these goals is to understand and include at least some of the newer, more sophisticated fundraising strategies when reaching out to current donors (who may also be able to give more) and looking to attract new donors.

An organization will stand out from the crowd of nonprofits if it has a well-conceived and thoughtful approach to current and prospective donors that offers them multiple ways to support the organization and, at the same time, also derive some tax benefits. Sure, an organization can continue to plan events and send mailings asking for checks or on-line credit card donations, but there are now so many other tools donors can use that are mutually beneficial. [1] As an added bonus, these strategies also often result in larger, multi-year donations rather than those simply coming as one-time cash donations. To effectively utilize these strategies, you will need to educate staff, board, and the donor-base to think differently about fundraising and gift acceptance.

Here are some resources and strategies nonprofits should have a working knowledge of:

As we discussed in BLBB Advisors' August 2, 2023 Money Notes, cash is not always king. The primary reason for this is that cash donations are made with after-tax dollars. In other words, before making a cash donation, first the donor must earn money and pay taxes on their earnings. The money they ultimately donate is post-tax. Not surprisingly, there are better approaches to soliciting and making charitable donations that are also a win for both the donor and the gift recipient! Why not educate your donors about the other ways they can support their favorite charities instead?

Appreciated Stock Gifts

- Do your prospective and current donors have low cost-basis securities held in non-retirement accounts? Similarly, do they have concentrated positions in taxable accounts that also happen to have a low cost-basis? If yes, these donors should seriously consider donating some of their low cost-basis shares to a charity rather than fulfilling their pledge with cash or other after-tax assets.

Appreciated assets, such as stocks in a portfolio that have increased in value since they were purchased, present an opportunity to donors and to nonprofits. When appreciated assets are donated, the donor avoids any capital gains tax, and they also receive a charitable deduction for the full fair market value of the asset they gifted to charity. For example, a donor could spend $1000 to buy 100 shares of stock at $10 per share, and that stock price might increase over time to $90 per share. By donating 50 shares to satisfy their $4500 pledge to their favorite nonprofit, the donor effectively spent only $500 to make a gift of $4500 and avoided capital gains taxes on the $80 per share appreciation. Moreover, the donor receives a charitable contribution tax deduction of $4500. Consequently, the nonprofit receives a larger gift than they otherwise would have, since the donation was not subject to capital gains taxation. Furthermore, when the charity receives and sells an appreciated gift, they generally will not be subject to capital gains taxes either.

Many nonprofits have a brokerage account set up to receive gifts of stocks, bonds, ETFs, mutual funds, and other types of securities, as well as a policy on how to handle these gifts once received. Given the recent run-up in cryptocurrency valuations, nonprofits might want to also consider offering an option to make donations in these currencies. If you need help with this, please contact your BLBB advisor.

Donor Advised Funds and Bunching Donations

- Do donors already have enough annual deductions to exceed the standard deduction?[2]

Claiming a charitable deduction is generally a smart tax strategy. But donors should not be dissuaded from giving to the causes they care about simply because they are not eligible to do so in any given tax year. One strategy to employ is to bunch donations in certain years and group their tax effects. This works especially well if the donor has a donor-advised fund (DAF) to which they can contribute a large amount one year (and thus can take the charitable deduction), and then gradually distribute those funds from their DAF over time so that their charities do not miss their annual gifts. 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.

DAF's are also a great way to give gifts of appreciated stock to charities that are not set up to receive stock. A donor can contribute appreciated stock to their DAF, the DAF can sell that stock and then distribute the cash proceeds to the charity of the donor's choice.

Nonprofit organizations should be knowledgeable about which sponsoring organizations manage DAFs, make sure your organization is an approved charity on the sponsoring organizations' list[3], and determine how they educate their clients on organizations in the community. Additionally, organizations need a way to track DAF donations to ensure that they are crediting those gifts to individuals in their database and stewarding them accordingly.

Qualified Charitable Distributions

- Is the donor over 70½ with extra funds in a pre-tax, non-employer-sponsored retirement account (aka Traditional, Inherited, and Rollover IRAs) that they anticipate not needing? If yes, then they should consider making a Qualified Charitable Distribution ("QCD") to one or more of their favorite nonprofits.

Anyone over age 70½ can elect to transfer up to $108,000 from a Traditional/Inherited/Rollover IRA account directly to charity. Known as a QCD, this is an excellent strategy, even when giving smaller amounts. By giving directly from a qualified retirement plan, a donor eliminates taxes on the amount given regardless of whether they itemize or take the standard deduction. Additionally, unlike other charitable deductions, QCDs also reduce the Adjusted Gross Income (AGI) of the donor. This is important because AGI is a factor in many other tax calculations. Reducing the AGI can potentially reduce Social Security taxes and Medicare premiums, increase medical expense deductions, and help donors qualify for certain tax credits.

Educational Tax Credits

- Does the donor pay Pennsylvania state taxes and care about K-12 education?

While educational tax credits offer a unique giving opportunity, they require careful navigation and understanding. These credits provide a strategic way for donors, particularly those paying Pennsylvania state taxes and interested in supporting K-12 education, to reduce their tax burden while contributing to important educational initiatives. By working with financial advisors, accountants, and business advisors, nonprofit organizations that are approved in Pennsylvania to receive educational tax credits can help donors understand how these tax credits can benefit both the donor's financial planning and the broader education community. This approach transforms a donor's PA tax liability into a positive investment in education, creating a mutually beneficial arrangement that supports both individual donors and educational institutions.

Targeting Business Owners and Business Advisors

- Do you know a business owner who may be looking to exit their business?
- Do you know a business advisor who consults with business owners?

Business owners and business advisors[4] represent a critical but often overlooked potential source of significant philanthropic support, particularly during major business transitions like a sale or ownership transfer. When preparing to sell a business, owners have multiple strategic giving options that can simultaneously reduce their tax liability and support meaningful charitable causes.[5] These strategies can include establishing a DAF funded with pre-sale appreciated stock, creating a private foundation, or leveraging educational tax credits to redirect potential tax dollars toward community initiatives. By donating a portion of business equity or sale proceeds, owners can generate substantial tax advantages while simultaneously creating meaningful philanthropic impact. Financial advisors and nonprofit organizations that can effectively educate business owners about these sophisticated giving vehicles – demonstrating how charitable contributions can be seen not just as an expense, but as a strategic financial and personal planning tool – will be most successful in unlocking significant funding opportunities during critical business transition moments.

Charitable Giving That Also Generates Income for the Donors

- Do you have a donor who may need money now for themselves or a loved one?

There are a host of charitable vehicles that can easily allow donors to give large amounts to charity and still generate a stream of income for themselves or their loved ones (either now or in the future). While donors looking to make large gifts (at least six figures) can utilize Charitable Remainder and Charitable Lead Trusts, a Charitable Gift Annuity (CGA) can be created with fewer assets.

A CGA is essentially a contract between a donor and a nonprofit organization that provides the donor a fixed income stream for their lifetime in exchange for a sizeable donation to the organization upon their death. However, not all nonprofit organizations have the means to handle this type of vehicle.[6] The way a CGA works, in general, is that a donor irrevocably transfers assets to a nonprofit organization (this is another great way to transfer appreciated stock), which then promises to make fixed annuity payments to one or two beneficiaries for life. 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.

A Charitable Remainder Trust (CRT) provides similar benefits to a CGA but offers more flexibility. A CRT allows a donor to set up a trust (managed by the donor) that will pay income either for life or a set number of years, to any number of beneficiaries. Upon the termination of the trust, the remaining assets will pass along to the designated charities. While a gift into a CRT is irrevocable, the charities that will receive the remainder can be changed any time during the trust term. Additionally, a CRT can leave the remainder to a DAF. Just like the CGA, the donor will receive an income tax deduction for the remainder value of the donation.

A Charitable Lead Trust (CLT) is the opposite of a CRT. The CLT provides income to a charity for a set number of years, and the remainder of the trust then passes to non-charitable beneficiaries, such as children or grandchildren.

Retained Life Estate

For donors who are planning on leaving a residence or farmland to charity in their Will, a retained life estate provides the benefit of an income tax deduction while the donor continues to have use of the asset for their lifetime. Retained Life Estates are irrevocable gifts of the "remainder" interest in a residence or farmland to a charity.

Summary

In an evolving philanthropic landscape, nonprofit leaders must be more than traditional fundraisers—they must become strategic advisors to their donors. By understanding and educating both the recipient organization and donors about sophisticated giving vehicles like appreciated stock gifts, qualified charitable distributions, donor-advised funds, and charitable gift annuities, organizations can transform their fundraising approach. These strategies not only provide significant tax benefits and financial advantages to donors but also create more stable, diversified, and sustainable funding streams for nonprofits. The key lies in continuous learning, proactive communication, and positioning your organization as a knowledgeable partner in donors' broader financial and philanthropic goals. As a start, feel free to distribute the attached Quick Reference Guide to donors and prospective donors. By doing so, nonprofits can build deeper, more meaningful relationships with donors, ultimately advancing their missions more effectively and creating lasting community impact

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[1] Many donors now prefer other forms and methods of payment. We encourage you to investigate donation options via credit card, Venmo, PayPal, or other online payment processors.
[2] The total deductions include such things as charitable gifts, state and local taxes (capped at $10,000), and home mortgage interest (up to $750,000 of debt) among other things. If that total exceeds the 2025 standard deduction of $15,000 for single filers, $30,000 for joint filers, and $22,500 for heads of household, then you will want to itemize your deductions. Otherwise, most filers will just take the standard deduction.
[3] Usually, as long as you are current in your IRS public charity filings, your organization is likely on the approved charities list for most sponsoring organizations.
[4] A business advisor is someone like BLBB's Jeffrey Dunne, a consultant that helps business owners prepare for various transition decisions by helping identify specific tangible and intangible value drivers within business operations and the impact on their long-term financial objectives.
[5] For more information, see BLBB Advisors' November 2, 2022 featured article, "Tax-Forward and Philanthropic Ways to Exit a Business."
[6] 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.

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A Nonprofit Donor's Guide to Strategic Charitable Contributions

- **Appreciated Stock Gifts**
  - Donate stocks that have increased in value
  - Avoid capital gains tax
  - Receive a full tax deduction for current market value
  - Support nonprofits without cash out of pocket

- **Qualified Charitable Distributions (QCDs)**
  - For donors over 70½ years old
  - Transfer up to $108,000 directly from IRA to charity
  - Reduce taxable income
  - Satisfy up to $108,000 of required minimum distributions (currently for those over 73)
  - No need to itemize deductions

- **Donor Advised Funds (DAFs)**
  - "Bunch" multiple years of donations in one tax year
  - Receive immediate tax deduction
  - Distribute gifts to charities over time
  - Flexible giving strategy

- **Educational Tax Credits**
  - For Pennsylvania state taxpayers
  - Support K-12 education initiatives
  - Reduce state tax burden
  - Transform tax liability into community investment

- **Charitable Gift Annuities (CGAs)**
  - Receive fixed income stream for life
  - Get immediate tax deduction
  - Support a nonprofit while securing financial future
  - Ideal for donors with substantial assets

- **Charitable Remainder Trust (CRT)**
  - Receive income for a period up to 20 years or life
  - Get immediate income tax deduction
  - Provide flexibility in changing the charitable beneficiary
  - Allow donor to control the investments and diversify a highly appreciated stock

- **Charitable Lead Trust (CLT)**
  - Get immediate income tax deduction
  - Provide income to charity for up to 20 years
  - Useful in estate planning for post death giving

- **Business Owner Giving Strategies**
  - Donate business equity or sale proceeds
  - Reduce tax liability during business transitions
  - Support community causes
  - Create philanthropic legacy

Next Steps:

- Review these strategies
- Discuss with your financial advisor to ensure you understand all the eligible options
- Connect with the nonprofits you support about their giving options

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