How Can I Give Back?

Case Study: David Fischer

Background

Over the past 40 years, David Fischer has built his manufacturing business into one of the most respected in the state. He has been able to save more than he needs for his retirement and has consistently invested a portion of his income. David has found fulfillment from volunteering his time with his favorite charities and is now interested in supporting these organizations. He has considered making annual gifts, but he isn't sure of the most tax-effective method.

Problem

David's company provides him with a $495,000 income every year which puts him in a 39.6% tax bracket. He believes that he is in a position in which he can donate $125,000 annually but isn't sure if simply writing a check is the best vehicle for that donation. How can he be more deliberate with his giving?

Solution

While David can certainly write a check for $125,000 comfortably each year, both his charities and he can benefit even more from other avenues of contribution.

Donating Cash: Since charitable donations are tax deductible, the actual cost of the donation is reduced by the tax savings. For example, David is in the 39.6% tax bracket; therefore, his annual $125,000 donation would provide him with a $49,500 tax savings each year.

Donating via a Charitable Trust: Donating stock that has appreciated is more tax-efficient than donating cash. This is good news for David who has accumulated many highly appreciated securities during his long history of investing. David can donate $125,000 of securities into a Charitable Trust and will not have to pay any capital gains taxes on those securities. For example, if he holds 1,000 shares of a stock purchased for $10/share which has now grown to $125/share, then David will forgo having to pay $27,370 in capital gains and other taxes.* In addition, he is entitled to the same $49,500 tax savings as he would get from a $125,000 cash donation. **This will save him a total of $76,870 each year.**

Additional benefits of the charitable trust include:

- Contributions do not need to be distributed in the same year, but David's tax savings occur at the time of his contribution.
- All funds remaining in the trust will grow tax-free, so the charities will receive even more money over time.
- The charitable trust will vet each charity for David to ensure that his donations are tax deductible and that each charity's filings are current.

* The tax rate on capital gains for David's income level would be 20%. He will also be saving the additional 3.8% surtax that would have been charged for Medicare. With his cost basis for his donated stock costing $10,000, his tax savings would be ($125,000-$10,000)*.238=$27,370

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