NORTH RIDGE

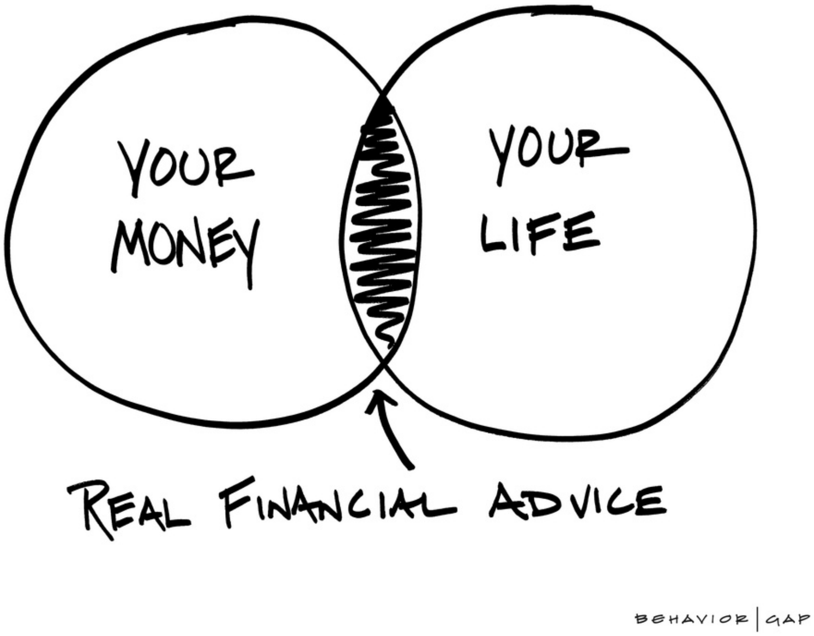
Tax Smart Philanthropy

Making Your Charitable Journey Count

Everyone has a unique perspective on how they can make a difference in the world, and finances play a crucial role in this. Our emotions, biases, upbringing, and fears shape our relationship with money and what we value most. For some, wealth isn't just about net worth - it's about creating a philanthropic impact on others.

There are various ways to make a difference, from sharing financial resources with those who matter most to making charitable donations. Charitable giving offers numerous benefits, including tax deductions, the potential for tax-free growth of philanthropic assets over time, and estate tax reduction. However, it is not just about donating money; it is about helping those in need and building stronger social connections while finding meaning and purpose.

Forward-thinking legacy planning and financial stability ensure your values carry on through giving. While no one likes to think about their mortality, being proactive is one of the greatest gifts you can give your loved ones. As your trusted guide, we can empower you to leverage your money to support your values and secure your future. By approaching your giving with intention and foresight, you create a lasting impact that transcends beyond the present and into the future.



Charting Your Charitable Compass:
Understanding Your Philanthropic North Star

Giving back is a noble cause, but it's crucial to approach it with a clear mission statement.

Here are some steps to help you define yours:

- Start by reflecting on your interests and passions.
- Consider your values and beliefs that align with giving.
- Research organizations and causes that are in line with your values.
- Set specific and measurable goals for your giving.
- Think about the impact you want to make and the legacy you want to leave.
- Assess thee resources (time, money, skills) you can commit to philanthropy.
- Involve others in your giving journey, whether it's friends, family, or like-minded individuals.
- Reflect regularly on your progress and adjust your giving strategy as needed.

Being emotionally invested in charitable causes is essential for ensuring follow-through and making informed decisions about resource allocation. Aligning philanthropy with personal passions creates an authentic and sustainable approach to giving back to the community, leading to more impactful giving.

Passion-driven philanthropy can also inspire others to give and create a ripple effect of philanthropy. Take the first step in aligning your giving with your passions to experience the emotional fulfillment of contributing to causes that hold personal significance.

Here are some examples of what your mission statement might look like:

> "I want to **positively impact** the environment by supporting conservation and sustainability organizations."

> "I aim to **reduce poverty** by donating to organizations that provide economic opportunities and resources to disadvantaged communities."

> "I want to use my **skill and expertise** to mentor young professionals in my field and support programs that provide mentorship opportunities."

You can do good by strategically incorporating giving into your financial plan while reaping financial rewards. It also helps you develop a more integrated and sustainable approach to managing your money.

The Tax-Efficient Trailhead: How Charity Can Save You Money & Make a Difference

Did you know you can contribute to charitable causes and decrease taxes? It's true!

The benefits of charitable giving go beyond the warm, fuzzy feeling of doing good. When you give back, there are many tax advantages.

Tax deductions allow you to reduce your taxable income by your donation amount, while tax credits directly reduce the tax you owe. And that's not all! Other tax incentives, like gift and estate tax benefits, can maximize the impact of your donation to others. By giving, you can simultaneously positively impact the world and save money on taxes.

Here are some ways in which giving can help reduce your tax burden:

Leverage your gift tax exemption for charitable giving! A gift tax exemption allows a person to give up to a certain amount per year to another individual without having to file a gift tax return. Of course, if your charity of choice is a 501c3 organization, donations are also exempt from gift taxes.

Get a tax deduction for your generosity! You can deduct charitable contributions from your taxable income. A generous contribution is a voluntary donation or gift to or for the use of a qualified organization, made without getting or expecting to get anything of equal value. Charitable contributions are generally tax-deductible for individuals who itemize deductions on their tax returns. Doing this can lower your overall tax liability and reduce taxable income.

Charitable giving tax deductions can be especially helpful for high-earning executives or business owners who need to offset a high-income tax year.

For example, we have had executives with income that fluctuates due to stock options vesting or bonuses that come with hitting their numbers. In these cases, it can be useful to strategically plan charitable giving during high-income years to reduce their tax liability. This saves them money while helping them make an impact.

A few key points:

- You must contribute to a qualified organization to receive the deduction. Eligible organizations include tax-exempt organizations such as churches, educational institutions, and certain hospitals under section 501(c)(3) of the Internal Revenue Code.
- The deduction is limited to a percentage of the donor's adjusted gross income (AGI). The deduction is generally limited to 50% of the donor's AGI for individuals, while for corporations, the limit is typically 10% of the donor's taxable income.
- The deduction is also limited to the amount of taxes the donor owes. The deduction can only reduce the donor's tax liability to zero, and you cannot carry forward unused credit to future tax years.

Gift assets before you go! Estate taxes are taxes imposed on a deceased individual's assets and properties. These taxes are levied on the estate at the time of death and are calculated based on the total value of the assets and properties that the individual owned at the time of their passing.

One way to avoid them is by gifting assets before death.

A few key points:

- The gift must be made without strings attached, meaning the donor cannot retain control or benefit from the gifted assets.
- There are annual gift tax exemptions for individuals. For 2024, each individual can gift up to $18,000 annually to unlimited recipients without having to file a gift tax return.
- Gifting assets can also reduce an estate's overall size, reducing the heirs' tax liability.

Donate appreciated assets, such as stocks or real estate.
Charitable donations come with unique tax benefits, especially when giving appreciated assets such as property or stocks. By donating these assets, you may qualify for a deduction equal to the asset's market value, and you won't have to pay capital gain taxes.

Consider donating securities you have held for over a year to a donor-advised fund or a public charity to receive a deduction for your securities' fair market value and avoid capital gains taxes. Most charitable organizations accept publicly traded securities like mutual funds, ETFs, bonds, and stocks since they are easy to transfer.

This can be especially helpful if you're doing year-end rebalancing and have had a significant, unexpected tax event. For example, we had a client who had a once-in-a-lifetime offer to sell his business. When he sold, he had something in the neighborhood of $1m in profit -- some of which was in cash, and some of which was appreciated stock. This would have bumped him up several tax brackets and required him to pay a significant amount out of pocket to cover his tax bill.

Instead, we donated $250,000 in appreciated assets to the charity of his choice. This notably reduced the taxes he owed, and allowed him to jumpstart his next chapter, which will be a retirement lifestyle that's focused on charitable pursuits and volunteer work for causes he's passionate about.

While donations of property or cash are deductible up to 60% of the donor's adjusted gross income, contributions of long-term appreciated assets are up to 30%. Keep proper records and documentation to claim the deduction on your tax return.

Here are some key points to consider:

- If the securities have increased in value, the donor can take a tax deduction based on the fair market value of the assets rather than the cost basis, which may result in a larger deduction and lower tax liability for the donor.
- Donating appreciated assets can also help donors diversify their portfolios. For example, if a donor has a significant position in a particular stock, donating some of those shares can help reduce concentration risk and improve the overall diversification of their portfolio.
- Some charities also prefer donations of appreciated assets, as they do not have to pay capital gains tax when they sell the assets.

Donor Advised Funds (DAFs)
are a great way to donate to multiple charitable causes while enjoying tax benefits. They function as a philanthropic savings account where you deposit money and determine which causes you wish to support over time. Using a DAF, you can make a large donation in one year and then spread the distributions to your favorite charities over several years, increasing the tax benefits.

This approach is often overlooked but can be a valuable tool for those looking to give back to their community flexibly and tax-efficiently. Additionally, DAFs can help reduce tax burdens from a windfall, such as an inheritance, business sale, or strong market returns. You can also take an immediate tax deduction when you contribute to your DAF, which can reduce your tax liability.

With appreciated assets like stocks or real estate, you can donate them to a DAF and avoid paying capital gains tax while still getting a tax deduction. Plus, you can contribute more in one year and spread out the donations over time, getting the most out of your tax deduction.

Furthermore, DAFs can serve as milestones for donors, helping them track their progress toward charitable goals. For instance, you can donate $10,000 to a particular cause over the next five years and track your progress toward that goal. DAFs can also give donors a sense of accomplishment and motivation as they reach milestones.

In summary, a donor-advised fund (DAF) is a charitable savings account that offers donors tax benefits upfront and allows them to support their favorite charities over time. DAFs simplify the giving process and provide flexibility to recommend grants when the donor is ready. You can modify your donation amount, update the causes you support, and donate anonymously to keep your donation private. With a DAF, you can decide how, when, and where you want to make a difference.

Charitable giving is a sound financial strategy with multiple tax benefits. By utilizing your gift tax exemption, earning a charitable contribution credit, and donating appreciated assets, you can reduce your tax burden while supporting philanthropic causes.

The Trailblazer's Guide to Charitable Giving: Hiking the Path to Maximum Impact & Tax Benefits

When giving a financial gift, it is essential to consider the result you hope to achieve beyond just monetary gain. For instance, you can use the gift to teach life lessons and encourage thoughtful spending habits or pay for an experience that provides critical life lessons, such as a family vacation. It's essential to consider the level of control you want over the gift, including its purpose and timing.

Creating a roadmap for giving is an excellent idea to ensure you stay on track and have the most impact with your donations.

Here are some steps to follow:

Define your giving priorities:
What causes are you most passionate about?

Set specific goals:
How much do you want to give, and to which organizations?

Determine a budget:
How much can you realistically give, and how often?

Evaluate the impact:
How will you measure the effectiveness of your giving?

Be flexible:
Allow room for adjustments to your plan based on changing circumstances or new information.

It is crucial to consider other factors, such as the potential future tax liability for the gift recipient. If your passion lies with giving while living, consider strategies such as outright gifting, funding a Roth, setting up a donor-advised fund (DAF), or gifting stock and mutual funds.

On the other hand, if you are passionate about giving in retirement or at death, you may want to consider strategies such as a Qualified Charitable Distribution (QCD), Charitable Remainder Trust, Charity as a Beneficiary, or Gift of Real Estate.

In short, creating a giving roadmap is key to ensuring that your donations make the most impact while reducing your tax burden. By defining your priorities, setting goals, and budgeting, you will be well on your way to making the world a better place while being smart with your money. With various giving options, like QCDs and Charitable Remainder Trusts, you can maximize your tax benefits while leaving a meaningful legacy.

Tax-Efficient Giving: Navigating the Taxation Landscape for Charitable Donations

Cash donations are the easiest and most direct way to give, and they are fully deductible up to 60% of your Adjusted Gross Income (AGI). For 2024, the annual exclusion is $18,000, and you get a lifetime exclusion of $13.61 million. Married couples can exclude double that amount in lifetime gifts as it is per person. The gift tax return keeps track of that lifetime exclusion.

Stocks and other appreciated assets offer significant tax benefits as you can deduct the total fair market value of the assets and avoid paying capital gains tax on any appreciation. Stock and mutual fund gifts can be a sentimental treasure trove. Witness your gift grow together, year by year, instilling a legacy of financial savvy and pride.

But watch out for the potential gains tax trap. If you give a gift that has already grown in value, the recipient assumes the cost basis and must pay the gains taxes if they sell in the future. However, if they inherit the gift, they get a "step-up in basis," meaning the gains tax disappears. If you're in a higher tax bracket and gifting to someone with lower taxable income, the gains taxes may be minimal.

Regarding gifting property, real estate can be a challenge. The tax deduction for appreciated real estate is limited to 30% of your AGI, and the deduction for gifts of property used in a trade or business is capped at 50% of AGI. You must have owned the property for at least one year to be eligible for a donation deduction.

An independent expert must appraise the property before donation to a qualifying organization. For the donation to be valid, it is crucial to have a formal gift agreement that documents all the details. While gifting property can be a wise move for passing on a valuable asset to your kids, you must consider their future income prospects. If they are going to become wealthy, it might be beneficial for them to sell and take advantage of the capital gains tax exclusion.

Lastly, private foundations can provide greater control over philanthropic giving but are subject to more complex tax rules and regulations. They must make a certain amount of charitable distributions yearly, typically 5% of their assets. They're subject to a "self-dealing" rule prohibiting them from engaging in transactions with disqualified persons, like foundation trustees or their family members.

They must ensure their investments are consistent with their charitable purposes, maintain proper records, and comply with various disclosure and reporting requirements. And they're generally subject to a higher excise tax than public charities.

A Charitable Remainder Trust (CRT) is a trust that allows you to donate appreciated assets, sell them, and avoid capital gains taxes. You receive a tax deduction for the total value of your donated assets, and you receive a lifetime income stream from the trust. The remaining assets go to the charity of your choice at the end of the trust term. However, CRTs can be complex and expensive to set up, and the income you receive may be taxed as ordinary income.

By naming a charity as a retirement account beneficiary, you can leave a valuable legacy and reduce taxes. The charity receives the gift tax-free, and the donation can reduce the taxes owed on your estate. It's an easy way to ensure that a portion of your estate goes to a cause you care about. You can also avoid probate, which can be expensive and time-consuming for your heirs.

Funding a Roth IRA can teach the recipient the lesson of compounding interest. You can set up a Roth IRA as a gift for someone else, such as a child or grandchild. The recipient needs to have earned income to be eligible to contribute. The contribution limit for a Roth IRA in 2024 is $7,000, or $8,000 if they're over 50. The gift counts as a gift to the recipient and eats into your annual gift tax exclusion ($18,000 in 2024) or your lifetime gift and estate tax exemption ($13.61 million in 2024). Once it's set up, the recipient will have complete control over the Roth IRA.

Due to tax regulations, individuals with particular retirement accounts must withdraw a minimum each year. Required Minimum Distributions (RMDs) are mandatory withdrawals taxed as ordinary income. One way to reduce or eliminate taxes on these distributions is through a **Qualified Charitable Distribution (QCD).**

Instead of taking the money as an RMD, you can designate a charitable organization to receive the money directly from your IRA. You must be at least 70.5 years old to make a qualified charitable distribution (QCD) from your traditional IRA. You cannot use funds from a 401(k) or other employer-sponsored plan for a QCD. Additionally, you're limited to gifting $100,000 per year per person.

Consider charitable "bunching" to maximize taxes. Due to the increased standard deduction, many smaller gifts may not yield any tax advantages since the standard deduction often exceeds the deduction for charitable gifts. To address this issue, it often makes sense for investors to consolidate 3-5 years' worth of gifts into a single year (a practice known as "bunching"). During years when donations aren't made, you can stick with the standard deduction.

Collaborating with Financial Guides: The Role of Financial Professionals in Charitable Giving

Charitable donations possess the power to make a positive impact on society while also offering tax benefits. However, navigating the various options and rules surrounding charitable giving can take time and effort. Consider working with a Certified Financial Planner® (CFP) to optimize charitable giving. A CFP can provide valuable guidance and support in developing a charitable giving strategy that aligns with your financial goals and values.

Here are some ways a financial professional can help:

- Identify tax-efficient giving options, such as donating appreciated assets or utilizing a donor-advised fund, which can maximize the donation's impact while minimizing the tax burden.
- Set up a sustainable giving plan, considering your income, expenses, and retirement goals.
- Guide philanthropic vehicles, such as private foundations and charitable trusts, that can help you achieve your philanthropic goals while also providing tax benefits.
- Identify charities aligned with your values and goals, and ensure that your donations go to effective and efficient organizations.
- Integrate charitable giving into your overall financial plan to help ensure that your contributions are sustainable over the long term and align with other financial goals, such as saving for retirement or paying off debt.
- Navigate the complex rules and regulations surrounding charitable giving, such as the percentage limit on charitable deductions and the requirements for substantiating donations.

By working with a financial professional, you can feel confident that your charitable giving is making a meaningful impact while supporting your overall financial plan.

The Thrill of Giving: Celebrating the Impact of Your Giving Expedition

Are you curious how you can positively impact the world and support causes that matter to you? Start by researching organizations that align with your values and ignite your passion for giving. Take the first step by making small, regular donations and experience the joy of contributing to causes you care about. Share your journey with others, spark their interest, and celebrate the positive impact you're creating!

Here are some inspiring examples of individuals who have combined tax-efficient giving with meaningful impact:

- Bill Gates has donated over $36 billion to the Gates Foundation through a donor-advised fund, significantly reducing his taxable income.
- Mackenzie Scott, who has donated billions of dollars to charities focused on racial equality, gender equity, and economic mobility, is taking advantage of tax deductions and likely increasing her impact through wise giving.
- Warren Buffet pledged to donate 99% of his wealth to charity through the Giving Pledge, maximizing his impact on causes like global health and education by taking advantage of gift and estate tax benefits.

Giving can be a powerful and rewarding experience. By giving, you can explore your unique values and find meaning and fulfillment. It's an opportunity to indulge in your passions and create a legacy of positive change in the world.

When you give, you are investing in the future, one that may not have a financial return but has a greater emotional and societal return. Giving can transform individuals and communities, creating a sense of belonging and purpose that money alone cannot buy. Giving back can be immensely rewarding emotionally, and it doesn't require a tax deduction to feel that way!

The Value of Giving with Intention & Foresight

When we consider our lives and the legacy we'll leave behind, our impact on others counts. It's not just about our wealth or charitable donations but how we've influenced those around us. By aligning our financial resources with our values, we can create a ripple effect of positive change that continues long after our time on earth.

At North Ridge Wealth Advisors, we understand the importance of growing and safeguarding your wealth. Our mission is to empower you to leverage your money in a way that supports your life's many adventures. Ensure your financial security is a top priority before extending help to others. We offer financial planning services to help you manage your finances in the most effective way possible.

Utilizing Base Camp, we model and stress-test portfolios to incorporate charitable giving into your financial strategy. We'll work with you to explore alternative ways to support others financially beyond the traditional methods of writing a check.

It's essential to regularly check in with each other since life, laws, and the world around us can change quickly.

At North Ridge Wealth Advisors, we act as your financial guide, providing ongoing support and reviewing specific parts of your financial plan to ensure they're still relevant and aligned with your values. We're here to help you achieve financial freedom so that you can positively impact the world around you.

Remember, giving with intention and foresight can make a lasting impact beyond our lifespan. By partnering with North Ridge Wealth Advisors, you can create a legacy that reflects your values and positively influences future generations.