

Charitable Giving for the High-Net-Worth Individual

Charitable giving is an important part of life for many clients. Whether donating money or property, dedicating time and effort, or a combination thereof, giving is a way to promote values and leave a legacy for future generations. Charitable giving can also be a valuable part of the overall financial plan, and understanding some basic ways to give can add significant economic efficiency to benefit the donor and their family for the long-term.

The 2017 Tax Cuts and Jobs Act (“TCJA”) and the 2025 One Big Beautiful Bill Act (“OBBBA”) have changed and refined deduction rules heavily. While the TCJA increased the standard deduction, it also reduced permissible itemized deductions. The OBBBA then made further refinements to those itemized deduction limitations. Here’s a summary of pertinent changes under these acts:

- **2017 TCJA** – Taxpayers can claim itemized deductions for only a handful of items – medical and dental expenses that exceed 7.5% of AGI (adjusted gross income or taxable income), mortgage interest (subject to a principal limitation of \$750,000 for new mortgages taken after December 2017), state and local taxes paid (capped at \$10,000), and charitable gifts.
- **2025 OBBBA** – Among other changes, the OBBBA modified the SALT and charitable deduction rules as follows:
 - SALT deduction is up to \$40,000 for tax years 2025 to 2029 (with annual inflation adjustments) for single and joint filing taxpayers with modified adjusted gross income (MAGI, which is income from all sources) below \$500,000. There is a phase-out of the higher SALT deduction for those with MAGI between \$500,000 and \$600,000, and a full phase-down to the prior \$10,000 SALT deduction limitation for those with MAGI above \$600,000.
 - Charitable deductions:
 - On the plus-side, there is now an ‘above-the-line’ deduction for cash gifts to public charities of up to \$1,000 for single filers and \$2,000 for joint filers. This deduction can be taken whether you itemize or take the standard deduction. To be deductible under this rule, donations cannot go to a donor advised fund or private foundation; they must go directly to a public charity.
 - There are also new limitations under the OBBBA:
 - For those who itemize deductions, there is a 0.5% “AGI floor,” meaning only donations above the floor are deductible.
 - For those in the 37% top federal income tax bracket (single filers >\$640,601 and joint filers >\$768,701), the value of the deduction is taken at the next highest tax bracket (35%) and not the top 37% bracket.

The new limitations under the OBBBA can have a meaningful impact on tax savings for charitable deductions for those with high AGIs. As an example, assume a person who itemizes their deductions has \$2,000,000 of AGI and typically gives \$20,000 per year to charity.

- Under the former rules, the donor would receive a full \$20,000 deduction at the 37% federal tax bracket which results in tax savings of \$7,400 (\$20,000 x 37%).
- Under the new OBBBA rules, the first \$10,000 (0.5% of AGI) is the deduction floor, making the deductible value \$10,000, and that deduction is taken at the 35% tax bracket, resulting in tax savings of \$3,500. That’s ~53% less in tax savings for making the same contribution amount as in the prior year.

Most clients new to Wealthspire have traditionally made charitable gifts by simply writing a check or donating cash. Cash donations to public 501(3)(c) charities still provide a current year income tax deduction up to 60% of adjusted gross income (now subject to the OBBBA limitations mentioned above) with a 5-year carry forward utilizing the full deduction if above the AGI limits. However, using cash is seldom the most efficient way to give. Below we will explore some of the more common and efficient ways to make charitable gifts and how to integrate these strategies into a long-term financial plan, especially given the recent changes enacted by the 2025 OBBBA.

Common Charitable Gifting Strategies

DONATE APPRECIATED ASSETS

For high-net-worth taxpayers, managing capital gains adds significant tax-efficiency to the portfolio. We often utilize tax-loss harvesting when markets are volatile and strategic gain harvesting in low-income years. Stock markets have also performed very well in the last 10–15-year period, leaving many with large, unrealized capital gains in their portfolio. For the charitably inclined, using low basis, long-term capital gain positions to donate also adds tax-efficiency. Appreciated assets can be viewed as charitable currency since asset donations allow for both a current year income tax deduction at fair market value of the asset donated and avoid triggering a capital gain on the disposition of the asset. So, the stock that you bought for \$10,000 and is now worth \$100,000? It can be donated to charity, you will receive a charitable income tax deduction subject to the potential OBBBA limitations mentioned above, and you'll avoid paying capital gains tax on the \$90,000 of gain since the tax-exempt charity will sell the position.

Most charities can receive direct donations of securities or other appreciated assets. Donations of appreciated assets to public charities are limited to 30% of AGI with a 5-year carryforward. And, if the asset is one that you would like to continue to own, there is no preclusion from purchasing it back with cash (cash that would have otherwise been used to make the charitable gift) which will reset the cost basis to current market value. When using appreciated securities, it's important to make sure that the asset donated is a long-term capital gain holding (i.e., it has been owned for one year or more), as short-term capital gain positions have their deduction limited to lesser of cost basis or current market value.

USE A DONOR ADVISED FUND

What if you would like a tax deduction this year, but do not want to give all the funds to the charities you plan to support right now? The donor advised fund (DAF) provides a simple solution. A DAF is a charitable investment account that is itself a public 501(c)(3) charity. DAFs have modest initial funding requirements (Fidelity and Schwab DAFs have no initial minimums) and can be funded with cash, appreciated assets, collectibles, or other investments (real estate/illiquid investments). Funds are donated into your own designated account within the DAF that can have your name attached to it or remain anonymous.

The donation is complete and the tax deduction is received once the funds are inside the DAF. As a public charity itself, assets can be sold inside the DAF with no tax consequence. While the donation is irrevocable, the donor will have the ability to 1) direct investment of the funds, tax-free, inside their DAF account, and 2) nominate other public charities to receive grants from their DAF account. Grants are then sent out by check from the DAF to the end charity. There is no legal deadline to send funds out of a DAF; however, many DAF sponsors require at least a \$50 grant to a public charity every three years.

Given the OBBBA's limitation on itemized charitable deductions discussed above, "bunching" gifts often makes sense. This technique involves making multiple years' worth of charitable gifts into the DAF to take a deduction in the current year and then spreading out grants to end-charities over time. Then in the following year(s), the taxpayer takes a standard deduction before again making a larger charitable donation to the DAF and itemizing deductions again in a future year.

MAKE QUALIFIED CHARITABLE DISTRIBUTIONS FROM TRADITIONAL IRA ACCOUNTS

A qualified charitable distribution (QCD) is a donation from a Traditional IRA to a qualified charity. While required minimum distributions (RMDs) of Traditional IRA funds are not mandated until age 73 (75 for those born after 1960), IRS rules allow for those 70½ or older to donate up to \$111,000 from their pre-tax IRA directly to public charities without taking the distribution as taxable income. Itemizing deductions is not necessary to take advantage of a QCD (so the OBBBA limitations don't apply), and one does not have to be past their RMD age – 70½ is the magic age. If you must take an RMD, the QCD can reduce the amount that must be taken in as taxable income (e.g., a 2026 RMD is \$200,000 and a \$111,000 QCD is made, so the QCD skips you entirely for income tax purposes and you only take in and pay tax on \$89,000). The QCD limit is per taxpayer, meaning a married couple where each has an IRA can make QCDs up to the annual limit and can be adjusted annually for inflation. One important note is that QCDs must go directly to end-charities and cannot be made to a DAF or private foundation.

Other Charitable Gifting Methods

Charitable giving can also be coupled with the donor's desire to retain an income stream from donated assets while also supporting charity. The techniques below are more complex but can be useful for high-net-worth individuals with both philanthropic and income goals in mind.

CHARITABLE GIFT ANNUITY

Many larger charities offer charitable annuities which allow donors to support the organization, receive a partial charitable income tax deduction up front, and receive a fixed income stream from the charity for a single or joint life with the remainder interest reverting to the charity. A gift annuity is a contract between a donor and a single charitable organization. It can be funded with cash, property, or appreciated securities. The terms of the agreement lock in the annuity rate and amount/timing of payments back to the donor. The annuity payment is based on several factors including the donor's age when making the initial gift. Annuitants receive an income tax deduction at the time of the original gift with the deduction based on the estimated amount that will eventually go to the charity after all the annuity payments have been made. Assuming long-term capital gain assets are gifted, the capital gains tax will be spread out for a period of time based on the donor's statistical life expectancy as the donor receives the income payments. If the donor outlives their statistical life expectancy, income payments moving forward are taxed as ordinary income.

CHARITABLE REMAINDER TRUST

Like the Charitable Gift Annuity, the Charitable Remainder Trust (CRT) also provides an upfront charitable income tax deduction and tax-advantaged income stream for a period of years or life. CRTs can be created during life or as part of the estate plan after death. They can also be created directly with a charitable organization (mostly larger organizations offer CRTs) or by the donor directly, in which case multiple charities or a DAF can be named as remainder trust beneficiaries.

CRTs are often used as a low-basis stock diversification strategy since, similar to the strategies discussed above, donations to a CRT are valued at current market value, and assets are sold and diversified once inside the CRT with no current capital gain consequence. The funds are then invested in a diversified manner inside the CRT, and an annual/quarterly income stream is paid to the donor or another named beneficiary. CRTs can have fixed payments (known as a Charitable Remainder Annuity Trust (CRAT)) or varying payments that are a fixed percentage rate of the CRT value each year (known as a Charitable Remainder Unitrust (CRUT)). There is also a CRT variation typically used when immediate income is not the goal or when illiquid assets that do not generate an income stream are used for the initial funding. This is called a Net-Income Make-Up Charitable Remainder Unitrust (NIM-CRUT). Donations to a CRT provide a charitable income tax deduction for the current year. Payments made to an income beneficiary are taxed in a tiered system which typically allows for deferral of the long-term capital gains tax that would have been due upon the sale of the asset(s) used to fund the CRT.

After the end of the CRT term or death of the last income beneficiary, the remaining CRT assets are distributed to designated charitable beneficiaries. Depending on how the CRT is drafted, the trustee may be given the power to change the charitable remainder beneficiaries during the term of the trust.

There are more complexities and costs with CRTs. If you create a CRT on your own, the trust must be drafted by legal counsel. A CRT will also generate a K1 for the income beneficiary's tax reporting. You can learn more about CRTs [here](#).

CHARITABLE LEAD TRUST

The inverse of the CRT is the Charitable Lead Trust (CLT). CLTs can have a fixed (known as a CLAT) or varying payment (known as a CLUT) and a term of years or lifetime term. They can be created during life or as part of the estate plan at death. Unlike the CRT, the CLT makes its annual payment to one or more charities and has its remainder interest either revert to the grantor, or more commonly, pass to designated beneficiaries as a longer-term discounted gift. The CLT is also a more complex strategy that requires both legal and accounting considerations. Depending on how the CLT is set up, it can also provide a large upfront income tax deduction. Learn more about CLATs [here](#).

BENEFICIARY DESIGNATIONS / NAMING CHARITIES IN YOUR ESTATE PLAN

Leaving assets to charity through an estate plan should also be considered. An estate plan often lists specific charitable bequests and may designate one or more charitable organizations as the taker-in-default (e.g., who receives the estate if all other beneficiaries are deceased). While such provisions are common, naming a charity (which can also be a DAF) as contingent beneficiary for a Traditional IRA or other retirement plan may make sense for some. Under the 2022 Secure Act 2.0, Traditional IRA funds passing to a non-spousal beneficiary are given a 10-year deferral period before the total account must be distributed out, and the inherited IRA may have RMD requirements for the beneficiary over the 10-year period depending on whether the original IRA owner was past their RMD age. All distributions are taxable as ordinary income to the beneficiary. For those with a potentially taxable estate (for 2026, greater than \$15,000,000 for an individual / \$30,000,000 for a married couple), naming a charitable contingent beneficiary for Traditional IRA dollars will reduce the amount of the taxable estate and use a tax-inefficient asset for heirs to do so.

CREATE A PRIVATE FOUNDATION

A concept that takes the DAF-concept to the next level is the private foundation. A private foundation is established by an individual, family, or corporation and can support charitable endeavors directly. Think of the DAF as a way to lend financial support to other public charities, while a foundation can do that it can also organize and run charitable events. The foundation is often used to create a legacy beyond one's lifetime and/or allow family members to be employed or serve as members of the board, and subject to limitations, support can go to organizations other than 501(c)(3) public charities.

Gifts of cash or securities to a foundation receive a charitable income tax deduction based on fair market value. Unlike the DAF, donations of real estate or privately held stock are only deductible at cost basis, not fair market value. Private foundation deductions are also more limited as compared to those afforded gifts made to DAFs or directly to public charities – 30% of AGI for cash donations (vs. 60% for a DAF / public charities) and 20% for long-term capital gain security donations (vs. 30% for DAFs / public charities). Foundations face a modest excise tax on net income and must distribute roughly 5% of their investment assets annually with severe IRS penalties for non-compliance.

While a private foundation can be an excellent family giving vehicle that leaves a lasting legacy, the legal, accounting, and administrative cost and effort make them unattractive for most. Given the added complexity and cost, a private foundation is typically something more suitable for the ultra-high-net-worth family that wants to be very involved in their charitable endeavors and/or leave a legacy.

Conclusion

Charitable giving is an important part of the overall financial plan, not just something to think about near year-end. Wisely considered sources and methods of donations can lead to a greater impact for the charity and better tax outcomes for the donor. We are here to help you sort through the options, understand how periodic tax law changes can impact you, and ultimately help make decisions that are best for you and your family.

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