Five ways to break through another charitable giving ceiling in 2018

by Kim Laughton—President, Schwab Charitable

2017 shattered giving records. Strong markets and the prospect of tax reform drove total charitable giving past $400 billion for the first time ever[1]. Meanwhile, at Schwab Charitable, our donors recommended $1.9 billion in grants to philanthropic groups last fiscal year – the most in our history – which increased total grants since inception to more than $10 billion.

It is remarkable that our donors may surpass last year's generosity in 2018. At the beginning of the year, the Tax Cuts and Jobs Act went into effect and caused speculation that charitable giving would suffer as a result. However, supported by strong economic conditions, our donors have remained focused on their philanthropic passions, and demonstrated that giving can continue to thrive in the new tax environment. Between January and September alone, they recommended $1.4 billion in grants to 60,000 nonprofit organizations, representing a 42% increase of dollars granted over the same period in 2017.

Visit schwabcharitable.org for more ways to maximize your philanthropic impact.

As we enter the final months of the year, the following five strategies could help individuals give more, with more impact, and make 2018 another historic year for philanthropy.

1 Donate appreciated investments or assets to charity.

WHY

The new tax code retains the significant benefits of contributing non-cash assets to charity and many investors may face a high tax bill this year.

HOW

Despite stock market turbulence in 2018, the S&P 500® index has risen more than 70% over the last five years[2], initial public offering (IPO) volumes have increased nearly 39% since last year[3], and home prices continue to tick upward[4]. As a result, many investors may face a high tax bill this year due to gains in their investments.

Savvy donors can simultaneously maximize tax benefits and the impact of charitable giving with non-cash assets, such as publicly traded stock, IPO stock, restricted stock, private business interests, real estate, and private equity. By contributing non-cash assets to a charity, including a donor-advised fund, individuals generally do not pay capital gains tax on the sale of assets that have been held for more than one year. This can increase the amount available for charity by up to 20% compared to selling the assets and donating the proceeds.

So far in 2018, 74% of contributions to Schwab Charitable were non-cash assets.

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Hypothetical Example (assuming investment has been held for more than a year):

	Sell stock and donate net proceeds (cash) to charity	Donate stock to Schwab Charitable donor-advised fund account
Asset Value (FMV)*	1,000 shares @$55 per share = $55,000	1,000 shares @$55 per share = $55,000
Capital Gains (100% Long-Term) Assumes a cost basis of $5,000 and long term capital gains of $50,000	$50,000	$50,000
Capital gains tax paid (23.8%, includes 3.8% net investment income tax)	$11,900	$ 0
Value of Gift to Charity (How much the charity will receive after taxes)	$43,100	$55,000 ($11,900 more for charity)
Value of charitable deduction (Assumes donor is in the 37% federal tax bracket)	$15,947	$20,350 (The donor's federal income taxes are reduced by $4,403)
Donor tax savings (Value of deduction less capital gains tax paid by donor)	$4,047	$20,350

With a direct donation to charity or a donor-advised fund account, the donor's federal income taxes are reduced by $4,403 and the charity receives $11,900 more.

Hypothetical, for illustrative purposes only. Assumes cost basis of $5,000, that the investment has been held for more than a year and that all realized gains are subject to the 20% federal long-term capital gains tax rate plus the 3.8% Medicare net investment income surtax. Does not take into account any state or local taxes. Gifts to charity of restricted stock greater than $10,000 are typically deductible at fair market value as determined by a qualified appraisal. Such appraisals may be discounted to reflect the lack of immediate marketability and other restrictions. Such discounts vary widely, depending on the nature of the specific restrictions. A 20% discount was assumed for this example. The example assumes full deductibility (gifts of long-term property are generally limited to 30% of AGI with a 5-year carryover of unused amount). Assumes donor is subject to the maximum 37% federal tax and does not account for state or local taxes. Certain federal income tax deductions, including the charitable contribution, are available only to taxpayers who itemize deductions, and may be subject to reduction for taxpayers with adjusted gross income (AGI) above certain levels. In addition, deductions for charitable contributions may be limited based on the type of property donated, the type of charity, and the donor's AGI.

2 Track donations to benefit from the charitable deduction.

WHY

The charitable deduction is one of the best ways to reduce philanthropically-minded individuals' annual income tax bill if they itemize deductions on their returns.

HOW

The Tax Cuts and Jobs Act limits many popular deductions, including mortgage interest and state and local taxes (SALT). However, the law retains the charitable deduction for individuals who itemize, preserving donors' ability to offset their tax bill by deducting contributions to charity.

Not only is the charitable deduction preserved under the new law, but individuals may continue to deduct up to 30% of their adjusted gross income (AGI) for non-cash donations. They also now have the option to itemize up to 60% of their AGI in cash donations, compared to 50% in previous years.

3 Concentrate charitable contributions and then itemize every few years, if you could benefit from the standard deduction.

WHY

The new tax code allows some donors to benefit from both the increased standard deduction and the charitable deduction.

HOW

Under the new law, the standard deduction nearly doubled in size. Single filers may now claim a $12,000 standard deduction, while married couples filing jointly can claim a $24,000 standard deduction.

Example of a single and married couple's standard deductions:

		2017	2018–2025
Standard Deduction[5]	Single	$6,350	$12,000
	Married filing jointly	$6,350	$24,000

Many donors who have historically itemized deductions on their tax returns can continue to do so while also taking advantage of the larger standard deduction. With a donor-advised fund, individuals can concentrate their charitable contributions in higher income years and then support charities of their choice over time. This could help many donors itemize their charitable deductions in some years and benefit from the increased standard deduction in other years.

For example, let's say a married couple has $23,000 of itemized expenses, including a $10,000 donation to a qualified charity or donor-advised fund. Because that amount is below $24,000, they would claim the $24,000 standard deduction every year; within two years they would claim a total of $48,000 in standard deductions.

But the couple can take a more tax-advantaged approach as an alternative option. Instead of donating $10,000 to charity in both 2018 and 2019, the couple concentrates, or bunches, their charitable donation, applying it all to a single year. The concentrated donation creates a total of $33,000 in itemized deductions. That means that over a two year period the couple will have $9,000 of additional tax deductions.

If the couple donates to a donor-advised fund, they can then spread out distributions to the charities of their choice over multiple years when help is needed most.

Hypothetical example of a married couple with no children:

	Option #1 Take the $24,000 standard deduction		Option #2 Tax-smart planning: Concentrate Giving	
Tax Year	**2018**	**2019**	**2018**	**2019**
Charitable deduction	$10,000	$10,000	$20,000	-
Other deductions	$13,000	$13,000	$13,000	$13,000
Total	**$23,000**	**$23,000**	**$33,000**	**$13,000**
Standard or Itemized Deductions	**Standard Deduction**	**Standard Deduction**	**Itemized Deduction**	**Standard Deduction**
Deduction Amount	$24,000	$24,000	$33,000	$24,000
Total two-year deduction		$48,000		**$57,000**

That's $9,000 of additional tax deductions over two years!

4 Invest charitable assets in socially responsible causes to help strategically plan and give over time.

WHY

Donor-advised fund account holders can double their philanthropic impact through socially responsible investing.

HOW

Individuals who have contributed to a donor-advised fund may invest their account balances for tax-free potential investment growth ahead of future granting, with the goal of increasing the amount available for grants to charity over time. In fact, since Schwab Charitable was founded, investment growth has generated almost $3 billion in additional funds to support donors' philanthropy.

If individuals allocate their donor-advised fund account balance to socially responsible investments, they can make an impact on the world twice with the same funds. The socially responsible investments can provide needed capital to worthy businesses and social ventures. The funds can then be used to again to recommend a grant to their favorite charities.

At Schwab Charitable, donors may invest in two pools with socially responsible mandates. Donors with larger accounts may also recommend an investment advisor to manage a custom impact investment strategy for their charitable dollars.

Socially Responsible Investment Pools

Investment Pool	Underlying Fund	Social Impact
Socially Responsible Balanced	PAXWX	Offers a diversified investment strategy combined with a social impact. The underlying fund identifies investments through a rigorous combination of financial, environmental, social and governance (ESG) criteria.
Large-Cap Equity	PRBLX	Provides an option to invest in a diversified portfolio of equity securities. The underlying fund incorporates environmental, social, and governance (ESG) factors in the investment process.

5 Be generous and timely with your giving.

WHY

Many nonprofits need grants now to meet annual targets.

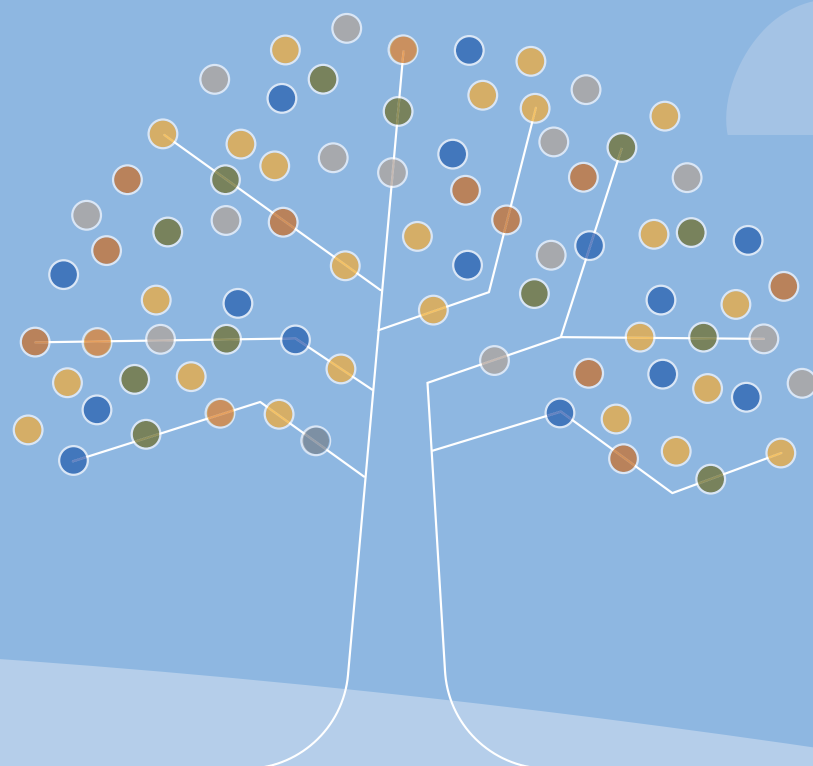
HOW

Giving season is an ideal time for individuals to evaluate their philanthropic activities against the charitable goals they set for themselves at the start of the year. Well-timed grants can provide extra impact to meet or exceed those goals.

Donors who reach out to their favorite causes during giving season often find they can help meet annual development targets or fund activities during the busy holidays. To have such gifts processed in time, it is best not to wait until the final weeks of the year. More than half of nonprofits receive the majority of their donations between October and December[6], and as a result, they may need extra time for processing gifts.

Individuals who have donor-advised fund accounts should consider scheduling grants now to ensure they are approved and can be sent out well in advance of year-end. They can also simplify their year-end giving by setting up recurring grants and utilizing mobile and online granting features to give during charity events and while on the go.

Unleash the power of strategic giving



Americans are consistently among the most generous people in the world. With favorable economic conditions on their side and much of the uncertainty associated with tax reform behind them, donors can supercharge their philanthropic impact with a thoughtful approach to this year's giving season.

Giving is Good.
Giving Wisely
is Great.

For questions or assistance with philanthropic planning or charitable giving:

Visit
www.schwabcharitable.org
Call Schwab Charitable at
800-746-6216
Contact your advisor

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Donors should carefully consider information contained in the prospectus, or if available, the summary prospectus, for the registered underlying mutual funds, including investment objectives, risks, charges and expenses. You can request a prospectus by calling Schwab Charitable at 800-746-6216. Please read the prospectus carefully before making contributions or recommending investment of funds.

1 Giving USA: Giving USA 2018: The Annual Report on Philanthropy for the Year 2017, June 2018. Total charitable giving totaled $410.02 billion in 2017. Individual giving accounted for 70% of the total, or $286.65 billion.

2 CNN Money. As of September 25, 2018.

3 Investor's Business Daily: "IPO Stocks Take Flight In 2018 — Here's How To Catch One, August 3, 2018.

4 S&P Dow Jones Indices: RISE IN HOME PRICES REMAINS STEADY AT 6.4% ACCORDING TO S&P CORELOGIC CASE-SHILLER INDEX, July 31, 2018.

5 IRS

6 Guidestar: The Effect of the Economy On the Nonprofit Sector, October 2012.

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Contributions of certain real estate, private equity or other illiquid assets are accepted via a charitable intermediary, with proceeds transferred to a donor-advised account upon liquidation. This intermediary considers donations on a case-by-case basis, and assets typically must be valued at $250,000 or more. Call the Fund for more information at 800-746-6216.

Market fluctuations may cause the value of investments held in a donor-advised account to be worth more or less than the value of the original contribution to the funds. Socially screened funds exclude certain investments and therefore may not be able to take advantage of the same opportunities or market trends as funds that do not use social screens.

A donor's ability to claim itemized deductions is subject to a variety of limitations depending on the donor's specific tax situation.

Schwab Charitable does not provide tax or legal advice. Where specific advice is necessary or appropriate, Schwab Charitable recommends consultation with a qualified professional.

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