2016 is a Great Year to Give

4 reasons why regardless of election results

by Kim Laughton— President, Schwab Charitable

Last year, Americans gave more to charity than ever before. In 2015, charitable giving rose to $373 billion in the United States, driven by an almost $10 billion increase in gifts from individuals which represent over 70% of total giving. Even more encouraging, the growth in charitable donations has outpaced the growth in the economy for the past five years.[1]

This year, individual giving in the U.S. is poised for even greater growth, thanks to several contributing factors including a solid economy and robust stock market performance, the extension of the IRA Charitable Rollover provision and the continuing value of itemized charitable tax deductions.

Here are four reasons why 2016 is shaping up to be a great year to give.

1. A solid economy and robust stock market have created appreciated assets that can be donated to charity to offset higher tax bills.

In the past five years, the S&P 500 stock market index has almost doubled[2] and the number of millionaires has increased more than 40%.[3] After a sustained period of economic recovery, many investors are experiencing healthy gains in their investment portfolios while simultaneously paying more in income taxes. In addition, some have seen increases in the value of their privately held businesses and real estate holdings.

Appreciated assets that have been held for more than a year can often be donated to charity to help offset these higher income and capital gains taxes. Donating long-term appreciated public or private securities to charity or a donor-advised account (rather than selling first and then donating after-tax proceeds) has a number of benefits:

- The donor pays no capital gains tax on the shares, so charities receive a donation that can be as much as 20% larger.
- The donor may normally claim a charitable deduction of the full fair market value of the donated securities, up to 30% of adjusted gross income. Amounts in excess of this 30% can be carried forward for up to five years.
- Amounts contributed to a donor-advised fund account can be granted over time to favorite charities.

This is a hypothetical illustration of the potential for both greater philanthropic impact and tax savings from donating $100,000 in appreciated investments that have been held for more than a year directly versus selling them and then giving the cash, after taxes, to charity.[4]

Scenario 1 Sell investments and donate the proceeds:	$100,000 - $20,000 (long term capital gains tax)	**$80,000 donated to charity** X 39.6% (personal income tax rate)	**$31,680 charitable deduction** **- $20,000 capital gains tax paid** **= $11,680 personal income tax savings**
Scenario 2 Donate appreciated investments directly:	$100,000 - 0 (long term capital gains tax)	**$100,000 donated to charity** X 39.6% (personal income tax rate)	**$39,600 charitable deduction** **- $0 capital gains tax paid** **= $39,600 personal income tax savings**

The examples are hypothetical and provided for illustrative purposes only.

1 Giving USA: The Annual Report on Philanthropy, 2016
2 Based on daily closing prices from October 8, 2009 to October 16, 2016
3 Boston Consulting Group
4 Assumes a 39.6% tax bracket, cost basis of $5,000 and long term capital gains rate of 20% 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.

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2. The value of the charitable tax deduction remains substantial for high income earners.

Most high income earners experienced an increase in both their income tax and capital gains tax rates in 2013, which has made the value of charitable and other itemized deductions worth more. The top marginal tax rate for high income earners is currently 39.6% and the top rate on capital gains and qualified dividends is 20%.Tax legislation from the next administration and Congress could potentially increase these rates even further.

3. The IRA Charitable Rollover is permanent.

The individual retirement account (IRA) charitable rollover has been a popular tax-law provision and was made permanent by legislation late last year. It allows people who are 70½ or older to transfer as much as $100,000 of their required minimum distribution each year directly from an IRA to qualified charities without being taxed on the distribution. Distributions must be made directly to the operating public charities (currently excludes donor-advised funds, supporting organizations and private foundations).

4. Future tax legislation could cap itemized deductions, lower the estate tax exemption or increase estate tax rates.

With a new president in office next year, the U.S. Congress is likely to act on proposals to raise tax revenues and simplify the tax code. The possibility of a reduction or cap on itemized deductions (which could include charitable deductions) for high income earners has been discussed as has lowering the estate tax exemption level and raising estate tax rates. In the past, this type of uncertainty led many to adopt a "bird in the hand" philosophy. Instead of waiting for Congress to act, donors may prefer to increase their charitable giving in 2016 and realize the existing, significant tax benefits while also proactively managing the size of their taxable estates.

For questions or assistance with philanthropic planning or charitable giving:

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