How charitable giving in 2017 may help prepare your clients for tax reform

by Kim Laughton— President, Schwab Charitable

It is unclear exactly how new legislation will unfold, but tax reform could go into effect as early as 2018. Possible changes to itemized deductions including charitable deductions, and estate taxes are all on the table. So it may be prudent to maximize charitable deductions this year when the current tax policy is still intact.

To help guide your clients through this period of uncertainty we recommend talking to them about their giving goals and helping them understand the significant tax benefits of philanthropy. Choosing the most efficient giving vehicle and donating appreciated, non-cash assets are two ways to make a bigger difference in the world while reducing tax liability.

Consult our guide for 7 tips to introduce philanthropy into financial planning discussions.

Visit schwabcharitable.org for more ways to deepen client relationships through philanthropy.

2 steps to prepare your clients:

1. Help clients choose the best giving vehicle to meet their goals

2017 is a particularly good year to open a donor-advised fund account before tax laws change. Since tax rates are expected to go down, contributing to an account this year can help offset today's high taxes and possibly bypass future deduction limits. Donors can receive an immediate tax benefit and then recommend grants from the account over time.

Donor-advised funds like Schwab Charitable make charitable giving more efficient, convenient and tax smart, which enables donors to maximize the impact of their philanthropy. They can either serve as a donor's primary giving vehicle or in conjunction with other solutions such as private foundation, charitable gift annuity, or trust. Each vehicle has different features and benefits – help your clients select the best solutions to meet their needs.

2. Help clients minimize their tax exposure and maximize their impact by donating appreciated assets

The vast majority of donors give via check or cash and don't realize that it's much more tax effective to contribute appreciated securities or non-cash assets. This provides you with an opportunity to add tremendous value to your clients. Help identify the most efficient assets for your clients to donate and thereby reduce taxes.

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Contributing appreciated non-cash assets held for more than one year, such as securities, private stock or real estate are the most tax-effective gifts to donate. Clients not only receive an immediate tax deduction, but they potentially eliminate capital gains which means even more going to the charities they choose to support.

Benefits of contributing appreciated assets:

- The donor does not pay capital gains tax on the assets, so they potentially eliminate the tax hit and the charities of their choice may 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.

Case Study: Impact of donating private company shares directly to charity

Asset Value	$1,000,000	$1,000,000
Capital Gains (100% Long-Term)	$950,000	$950,000
Taxes Paid[1]	$226,100	$ -
Gift to Charity	$773,900	$1,000,000
Value of Gift for Donor Charitable Deduction[2]	$773,900	$900,000
Donor Tax Savings[3]	$80,364	$356,400

Some of these contributions can take a while to process, so it makes sense for you to have ongoing conversations with your clients throughout the year to help them avoid rushed decisions and missed opportunities.

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Schwab Charitable is an independent 501(c)(3) public charity with the mission to make charitable giving more tax-smart, simple, efficient for our clients and their investment advisors.

Contact your Relationship Manager or call Schwab Charitable at 800-746-6216 to discuss how charitable planning can help you differentiate your service and build deeper client relationships.

Giving is Good.
Giving Wisely
is Great.

1 Hypothetical, for illustrative purposes only. Assumes cost basis of $50,000, 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.

2 Gifts to charity of private 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 10% 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).

3 Assumes donor is subject to the maximum 39.6% federal tax and does not account for state or local taxes. Certain federal income tax deductions, including the charitable deduction, 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.