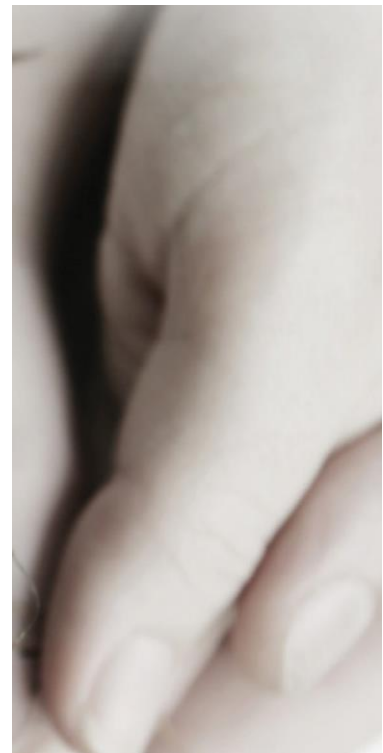


Charitable

GIVING



HOW TO MAKE CHARITY LESS TAXING



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10 MYTHS ABOUT CHARITABLE GIVING INTRODUCTION

It's no secret that charitable giving helps to improve social well-being by supporting a broad range of areas including education, scientific research, alleviation of poverty, and others. The vast majority of charitable donors in the U.S. give because they genuinely care about the work of the organizations that they support and want to see those organizations succeed and make a difference in the world. |

It's also no secret that, to encourage donations, the federal government makes certain charitable contributions eligible for tax benefits. To reap these benefits, prior to giving, donors should check an organization's eligibility to receive tax-deductible charitable contributions. You can do this through the IRS Tax Exempt Organization Search Tools (<https://www.irs.gov/charities-non-profits/tax-exempt-organization-search>).

While charitable giving offers many benefits, it's important that your plans for giving are based on facts so your contributions accomplish what you desire. To help in this regard, we demystify below 10 common myths about giving.

If you need additional information about these or other issues, you can consult a financial advisor who includes charitable giving among the services they offer. A knowledgeable financial advisor can help you develop a well-rounded strategy for charitable and personal giving strategies and create an approach that maximizes your contributions, provides potential tax benefits and reflects your values and the kind of long-term legacy you want to leave for others.

1. "Taxes and Giving: The Current and Potential Impact of US Tax Policy for Donors and Nonprofits" – Stanford Social Innovation Review, Aug 25, 2021; https://ssir.org/podcasts/entry/taxes_and_giving_the_current_and_potential_impact_of_us_tax_policy_for_donors_and_nonprofits#





MYTH #1: CHARITABLE GIVING HAS DECLINED BECAUSE OF THE ECONOMIC CHAOS WROUGHT BY THE COVID-19 PANDEMIC.

Has the pandemic inhibited your donating to a cause?
If not, you're not alone.

According to the Giving USA Foundation's most recent study, individuals, bequests, foundations and corporations gave an estimated \$471.44 billion to U.S. charities in 2020 despite the pandemic. That is a 5.1% increase over the \$448.66 billion contributed in 2019.

"As a result, 2020 is the highest year of charitable giving on record," says Laura MacDonald, chair of the Giving USA Foundation.

Ted Grossnickle, chair of The Giving Institute, adds, "Giving in 2020 amid complex and challenging developments serves as a reminder of the unique way Americans respond to local and national opportunities and needs."

The above information comes from: "Giving USA 2021: The Annual Report on Philanthropy for the Year 2020" – Lilly Family School of Philanthropy, June 15, 2021: <https://philanthropynetwork.org/news/giving-usa-2021-year-unprecedented-events-and-challenges-charitable-giving-reached-record-47144>



MYTH #2: YOU CAN ALWAYS DEDUCT THE ENTIRE AMOUNT OF YOUR CHARITABLE CONTRIBUTION.

It's a common misconception that donations are 100% deductible. In reality, the deductibility of contributions has limitations.

According to the Internal Revenue Service, you may deduct the cash or fair-market value of your contribution up to 50% of your adjusted gross income (AGI) computed without net operating loss carrybacks. Contributions to certain private foundations, veterans' organizations, fraternal societies, and cemetery organizations are limited to 30% of AGI, again computed without net operating loss carrybacks.¹

If you're in doubt whether an organization qualifies for 50% or 30% deductions, the organization itself can tell you. Or, you can use the IRS' Tax Exempt Organization Search Tool (<https://www.irs.gov/charities-non-profits/tax-exempt-organization-search>), which provides "deductibility status codes" to help you.

1. "Charitable Contribution Deductions" – Internal Revenue Service, Aug 18, 2021: <https://www.irs.gov/charities-non-profits/charitable-organizations/charitable-contribution-deductions>



MYTH #3: YOU CANNOT GET A TAX BREAK UNTIL YOU MAKE A DONATION.

That makes sense, doesn't it? You must give before you can get. And, typically, it's true: people take a deduction of a qualified donation in the calendar year that they make their gift. But there are exceptions to this scenario.

One exception is a "donor-advised fund." A donor-advised fund allows you to deduct your contributions on your tax return today while postponing the actual charitable donations until later. The money can be doled out gradually to one or more qualifying charities of your choice.

"On its most basic level, a donor-advised fund is like a philanthropic, flexible spending account," says Christine Donovan, who oversees the national strategy and implementation of the Northern Trust Charitable Giving Program. Because you fund the account with an irrevocable gift, you cannot get the money back, but you still retain control of when to donate and how much.¹

1. "Retirees, Get an Upfront Tax Break for Delayed Charitable Giving" – by David Rodeck, October 28, 2021: <https://www.kiplinger.com/personal-finance/charity/603572/an-upfront-tax-break-for-delayed-gifts>



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MYTH #4: DISTRIBUTING MONEY TO A CHARITY FROM AN IRA DOES NOT SATISFY YOUR RMD REQUIREMENT.

That's not true. Through a provision of the tax code known as "a qualified charitable distribution" (QCD), you can satisfy all or part of your required minimum distribution (RMD) from your IRA.¹

Sometimes referred to as "a charitable rollover" or "a direct IRA transfer," this is a great way to do good while taking advantage of a tax benefit – because unlike traditional withdrawals, which are subject to income tax, QCDs are tax-exempt when left to a 501(c)(3) charity.

Keep in mind that a QCD does not qualify for a charitable deduction on your tax return; it's even

better, because it qualifies for a tax exclusion. As such, it lowers your taxable income, which in turn reduces the amount of Social Security benefits that are subject to income tax. A QCD exclusion can also reduce Medicare surtaxes by keeping taxable income under the Medicare surtax threshold.²

QCDs can be a win-win for both you and a charity.

1. "Qualified charitable distributions" – Internal Revenue Service, Sep 30, 2021: <https://www.irs.gov/retirement-plans/retirement-plans-faqs-regarding-iras-distributions-withdrawals>

2. "Play for the Win-Win: Help a Charity While Benefitting Yourself" – Oct 27, 2021: <https://www.jdsupra.com/legalnews/play-for-the-win-win-help-a-charity-5088147/>



MYTH #5: ONLY WEALTHY PEOPLE HAVE CHARITABLE GIVING PLANS.

It's true that the wealthy often include charitable giving in their estate plans, with 86% of charitable donations made at death coming from the wealthiest 1.4%.¹

The wealthy do so because, like many other people, they have causes they want to support. And, of course, there are the tax benefits: they can increase their net worth and lifetime income by redirecting to their favorite charity money that would have been taxed.

But charitable giving at death is not restricted to the wealthy. Anyone who creates an estate plan – which 46% of people do² – can include charitable giving in it and achieve the same results, helping worthy causes while saving on taxes.

Is it di\$cult? No, you don't need exotic legal or financial instruments to include charitable giving in your estate planning. Unless your assets are extensive or complicated, your contribution can be made through traditional means, including:

- Wills
- Trusts
- Retirement funds
- Life insurance policies
- Physical assets

Although relatively simple, these means have tax implications that can maximize the gifts you leave for all of your beneficiaries. For example, assets from an IRA or 401(k) plan are subject to income tax when bequeathed to an individual, but are tax-exempt when left to a 501(c)(3) charity.

If you'd like a better understanding of what options are best for you, your family, and the causes you care about, you can turn to legal and financial professionals who have credentials and experience in estate planning. They can help you maximize the impact you can have, now and in the future.

1. "How You Can Create a Philanthropic Legacy Without Being Ultra-Rich" – The American College of Financial Services, December 1, 2020: <https://www.theamericancollege.edu/news-center/how-you-can-create-a-philanthropic-legacy-without-being-ultra-rich>

2. "How Many Americans Have a Will?" – by Jeffrey M. Jones, June 23, 2021: <https://news.gallup.com/poll/351500/how-many-americans-have-will.aspx>



MYTH #6: GIVING SMALL AMOUNTS DOESN'T SIGNIFICANTLY HELP A CAUSE.

This very common myth is simply not true. Whether they are given directly or through an estate plan, even small amounts matter. Particularly in cases of dire humanitarian need and disaster relief, aggregated amounts of small gifts are the lifeblood of philanthropic campaigns.¹

In addition to adding up, small donations help causes in other ways:

- They can help donors get to know a charitable organization, inspiring larger donations in the future.
- Having many different donors and funding sources gives a nonprofit credibility in the eyes of other donors, as well as stability. If one large source – a government grant, for example – suddenly stops, a nonprofit could be in trouble. But nonprofits have a better chance of succeeding if they have diverse sources of support.

The bottom line is that charitable donations, no matter how small, can be essential to the survival of nonprofits in a community.

1. “On Philanthropy: Use facts to debunk entrenched myths about philanthropy” – by Bruce DeBoskey, Feb 9, 2020: <https://www.denverpost.com/2020/02/09/on-philanthropy-bruce-deboskey-use-facts-to-debunk-myths-about-charity/>



MYTH #7: DONATIONS OF APPRECIATED NON-CASH ASSETS TO CHARITY ARE NOT DEDUCTIBLE.

Yes, they are. Appreciated non-cash assets (such as publicly traded securities, real estate, or private business interests) held more than one year are all deductible. These assets can provide a tax-smart way to maximize your philanthropic impact.

Donating these assets can unlock additional funds for charity in two ways I:

(1) You potentially eliminate the capital gains tax you would incur if you sold the assets yourself and donated the proceeds, which may increase the amount available for charity by up to 20%.

(2) You may claim a fair market value charitable deduction for the tax year in which the gift is made. If you wish, you can choose to pass on that savings in the form of more giving.

Before venturing into this form of charitable giving, keep in mind that gifts of appreciated non-cash assets can involve complicated tax analysis and advanced planning. In other words, you'll want to consult with a tax or legal advisor before proceeding.

1. "Benefits of Donating Appreciated Non-Cash Assets to Charity" – by Charitable Strategies Group at Schwab Charitable, May 21, 2020: <https://www.schwabcharitable.org/non-cash-assets/donate-your-investments>



MYTH #8: CHARITIES CAN SPEND YOUR DONATIONS HOWEVER THEY CHOOSE.

Although unrestricted gifts can be used as a charity sees fit, there are ways to restrict gifts to ensure that donations are used in alignment with your values. One way is through “donor-advised funds” (DAFs).

When it comes to supporting causes close to your heart, DAFs are among the most popular and effective options available. DAFs are created through a written agreement between a donor and a DAF-charity partner such as Fidelity, Vanguard, Schwab, or other large donor-advised 501(c)(3) public charities. Through a written agreement, donors make an

irrevocable gift to their charity partner. The partner puts the money in a dedicated account for the donor and dispenses the money to whom the donor specifies. It’s that simple

DAFs have been around for decades – and with good reason. They are easy to set up and maintain, while providing significant tax and financial advantages. |

1. “Donating to Charity? You Could Get a Bigger Tax Write-Off This Year” – WSJ Podcast, Dec 14, 2021: <https://www.wsj.com/podcasts/google-news-update/donating-to-charity-you-could-get-a-bigger-tax-write-off-this-year/b7c7c932-ad65-418a-b675-26bcea0edb5f>



MYTH #9: YOUR DONATION IS GONE ONCE YOU HAVE GIVEN IT.

Yes, and no. It depends on how you give it. If you simply send a charity a check, it will usually be deposited, spent, and gone forever.

However, there are various ways you can donate so your gift lives on long after you've made it. They involve irrevocable donations. Here are three of the most popular ways that will extend your ability to give over long periods of time:

Charitable Remainder Trust involves a gift of cash or other property to an irrevocable trust. The donor and/or other beneficiary receives an income stream from the trust for a term of years or for life and the named charity receives the remaining trust assets at the end of the trust term.

Charitable Lead Trust works the opposite of the

above. It's an irrevocable trust designed to provide financial support to one or more charities for a period of time, with the remaining assets eventually going to family members or other beneficiaries.

Donor-Advised Fund is an irrevocable gift to a charity partner that doles out the money gradually according to your wishes. In this way, you retain control of when to donate and how much.

Whatever gifting strategies you choose will depend on your age, the amount and type of assets you plan to give, and the level of control you want to exert over the gift. When choosing strategies to achieve your short and long-term objectives, it typically makes sense to consult a financial or legal professional.



MYTH #10: THE IRS WON'T ACCEPT CRYPTO-CURRENCIES AS TAX DEDUCTIBLE DONATIONS.

Actually, it does, and crypto donors are known for being among the most generous donors. I

It is much the same as donating appreciated publicly traded stock, because you can get a full deduction for the fair market value of that crypto without paying tax on it. The main difference involves appraisal.

If you give a large amount of appreciated stock, say over \$5,000, you don't have to worry about ap-

praisals because, if it's publicly traded, everybody knows what the value is. But crypto-currencies are like land, a painting or other asset where the value hasn't been established. You therefore have to get a qualified appraisal and prove to the IRS its fair market value.

1. "Donating to Charity? You Could Get a Bigger Tax Write-Off This Year" – WSJ Podcast, Dec 14, 2021: <https://www.wsj.com/podcasts/google-news-update/donating-to-charity-you-could-get-a-bigger-tax-write-off-this-year/b7c7c932-ad65-418a-b675-26bcea0edb5f>

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