Cherry Tree Wealth Management

(Formerly Adam Smith Advisors)

October 2018

CHERRY TREE WEALTH INSIGHTS: *Published by Keith Tufte, President of Cherry Tree Wealth Management, LLC, with insights on investing and wealth management.*

INVESTING QUOTE OF THE MONTH:

"Saving is gratification delayed. Borrowing is pain postponed."– Jonathan Clements..

CHARITABLE GIVING STRATEGIES POST TAX REFORM- THINGS HAVE CHANGED

The tax law changes implemented in 2018 will significantly impact charitable giving. Charitable gifts will no longer provide a tax benefit for many (most) people starting this year, a big change from previous years. Many people make their charitable gifts towards yearend, so it is important to know how to gift in a smart way, and to understand ahead of time whether your charitable gift has any tax benefits. There are several smart strategies that you can use to maximize the tax benefits of your charitable giving under the new tax laws.

Charitable gifts for most families will not provide a tax benefit in 2018 and beyond, due to the higher standard deduction. The new tax law increased the standard deduction for a couple to $24,000 per year ($26,600 if age 65+). It also limits state and local (property) tax deductions to $10,000 per year. If you do not have a sizeable mortgage interest deduction or other significant itemized deductions, you will likely be taking the standard deduction. It is estimated that over 90% of families will be taking the standard deduction in 2018 and beyond. If you are taking the standard deduction (and don't have a mortgage), most couples will find that the first $14,000 of charitable gifts will not be tax deductible. Most families that make charitable gifts of $1,000-10,000 will see that these gifts no longer reduce their income taxes.

CHARITABLE GIVING STRATEGY #1: LUMPING YOUR CHARITABLE GIFTS

One strategy to increase the amount of your tax deductions is to lump your charitable giving into one year out of three (or four). Rather than gifting $10K per year, gift $30K in one year and zero in the other two years. For a couple with no mortgage interest deduction, giving $10K per year likely results in no tax benefit. Gifting in a $30K lump instead might result in over half of the donation being tax deductible.

CHARITABLE GIVING STRATEGY #2: GIFTING APPRECIATED SECURITIES

It can be smart to gift appreciated securities, rather than cash, to your favorite charities to avoid the capital gains tax on the gains. This will save you future income taxes. It would still be smart to do the gifting of appreciated securities in a lumping strategy described above, because then you will likely get some income tax deduction, and avoid capital gains taxes. The larger the capital gain is in percentage terms, the more it makes sense to use that asset to gift to charity. Giving appreciated securities to charity makes less sense for very old people because the cost basis on their assets will be automatically stepped-up to market values upon death.

CHARITABLE GIVING STRATEGY #3: GIFTING TO YOUR OWN DONOR-ADVISED FUND (DAF)

A good way to combine strategies #1 and #2 is to gift appreciated securities to your own donor-advised fund (DAF) using the lumping strategy. You get the tax deduction in the year you make the big charitable gift, you avoid the capital gains on the appreciated securities that are donated, and then you can actually give the money to your charities as slow or fast as you wish

Continued >>

out of your DAF. If you are fortunate enough to have a huge income year due to the sale of your business or the sale of a big investment at a huge gain, you might pull forward 5-10 years of typical charitable gifting to make a supersized donation to your donor-advised fund. This gives you the big charitable deduction in the year when you have the huge income (and tax bill). Donor-advised funds are simple and smart vehicles for people who make significant gifts to charity each year, and especially for those who already own appreciated assets. DAF's remove assets from your estate, which can help save state and federal estate taxes as well.

CHARITABLE GIVING STRATEGY #4: QUALIFIED CHARITABLE DISTRIBUTION (QCD) FROM YOUR IRA (UP TO $100K)

This is usually the best strategy for people over age 70.5, who are required (by the IRS) to take taxable distributions from their IRA each year. These required distributions from your IRA each year are taxed as ordinary income. By gifting some (or all or more than 100%) of this required distribution to charity you avoid the income (and ordinary income tax) on the distribution. This lowers your adjusted gross income (AGI) which can save you money elsewhere (tax on Social Security income, net investment tax, Medicare premiums). You do not get a charitable tax deduction for this gift, but you are likely better off using this strategy than taking a tax deduction of the same size. You can't donate from your IRA to your donor-advised fund, and there are specific IRS required steps to do a QCD properly. See us for details.

CHARITABLE GIVING STRATEGY #5: GIFTING TO A CHARITABLE TRUST

You can gift to an irrevocable charitable trust, depending on what you want for the gift and for your own family situation. In a Charitable Remainder Trust the trust pays you the income from the trust assets during your lifetime (or a certain period of time), and then the remainder of the assets go to the charity you choose. In a Charitable Lead Trust the trust makes payments to a charity for a certain number of years, and then the remaining assets transfer back to the trust beneficiary which could be a family member, your donor-advised fund, or another beneficiary. These charitable trusts can remove assets from your estate, which could reduce your estate taxes.

One question we get fairly often is for people over age 70.5 is it smarter from a tax point of view to gift appreciated securities to charity or to use the Qualified Charitable Distribution (QCD) from their IRA? They are both smart ideas. For many people donating part or all of your IRA required minimum distribution will be the best bet. It depends on your age, income, tax deductions, tax bracket, appreciation percentage on the securities, etc.

The best charitable gifting strategy for you will depend on your situation. How old are you? What is your life expectancy? What is your income and marginal income tax rate? Do you have appreciated assets with huge percentage capital gains? Did you sell your business this year or have a huge gain? How much do you want to gift? Are most of your assets in taxable accounts or qualified IRA accounts? Do you have enough tax deductions to itemize in 2018 or are you using the standard deduction?

For many people the same charitable gifts you made last year will no longer provide a tax benefit in 2018 and beyond. We still encourage people to make charitable gifts to their favorite causes, but want you to be aware the tax benefits of the gift may be smaller or zero this year. The optimal charitable gifting strategy for you will depend on your circumstances. We can help determine the best strategy for you.

Cherry Tree Wealth Management, LLC (CTW) provides unique wealth management services for a select group of client families to help give them peace of mind. Author Keith Tufte, (President of CTW) has over 25 years of successful investment management experience as a Wall Street Analyst, Mutual Fund Portfolio Manager, Director of Equity Research for a major mutual fund firm, Hedge Fund Portfolio Manager, and Wealth Management Advisor. Please FORWARD this e-mail to friends/relatives/business associates that you think may have an interest. Please see our website at http://www.cherrytree.com.

CHERRY TREE WEALTH MANAGEMENT, LLC

Keith N Tufte, CFA, MBA • ktufte@cherrytree.com • Cell (952) 465-1785 • Office (952) 253-6006

Cherry Tree
WEALTH MANAGEMENT
(formerly Adam Smith Advisors)