Year End Giving Messaging

PG Calc Featured Article, October 2015

By Jeff Lydenberg, Vice President, Consulting, PG Calc

Labor Day signals the end of summer, but it also signals the approach of the season of giving. The last quarter of the year is a busy time in fundraising. Most charities see a significant uptick in giving as December 31 approaches. So how does year-end giving affect planned giving, and how do you make the case that the end of the year is a good time to make all sorts of gifts?

Income Tax Savings

People give to charities because they believe in the missions of the organizations they support. But let's be honest, tax benefits influence charitable giving. Gifts at the end of the year can reduce the donor's tax burden.

Let's do a quick review of how charitable giving saves income taxes. Within certain limits, a person can reduce the amount of his earned income subject to tax by making gifts to qualified charitable organizations. How does that work? Let's say that someone is in the 28% tax bracket and earns $10,000 in wage income from his job. The taxpayer will have to pay $2,800 in tax on the $10,000 of wage income.

If the taxpayer makes a gift of that $10,000 to charity, it is as if the taxpayer is getting a rebate on the taxes that would otherwise be due on earned income. So what is the tax savings in this example for a charitable gift of that $10,000? It's not a trick question: $2,800. The donor is in the same position, tax-wise, as he would have been if he had never earned the $10,000. So a gift of $10,000 doesn't save the donor $10,000 in taxes, but it does save him the tax that otherwise would have been due on that $10,000.

A gift of cash to fund a life income gift such as a gift annuity or charitable remainder trust also generates an income tax charitable deduction (and there is the additional benefit of income for life to the donor or named annuitants). Of course, the deduction for a life income gift is going to be less than the value of the cash donated because the beneficiary is receiving an income stream. Nonetheless, a gift annuity or charitable remainder trust can generate a generous deduction in the right cases. Another benefit of funding a gift annuity with cash is that a substantial portion of the annuity income will be tax-free for the annuitant's life expectancy.

Double Tax Savings

The income tax savings helps reduce a donor's taxable income, but there is a way to enjoy income tax savings and save on capital gains taxes, too. Let's assume the donor in the example above made a gift of Google stock valued at $10,000 for which he paid $2,500 over a year ago. What are the tax savings for this $10,000 gift?

This donor will still be able to take an income tax charitable deduction for the fair market value of the stock -- $10,000. Assuming the 28% tax bracket, this donor is still going to save $2,800 in income taxes from a gift of appreciated stock in Google. But wait, there's more!

If the donor had sold his Google stock, he would have realized capital gain income equal to the difference between what he paid for the stock ($2,500) and what it was worth at the time of sale ($10,000). That sale of the stock would generate $7,500 in capital gain income. Since our donor is in the 28% income tax bracket, a capital gain tax of 15% would apply to the $7,500 of capital gain income. Therefore, making a gift of the Google stock rather than selling it would save $1,125 in capital gain tax as well as $2,800 income tax for a total tax savings of $3,925. So this donor can make a gift of $10,000 of stock and the net cost of making the gift is only $6,075 ($10,000 - $3,925).

Donors can also fund life income gifts at the end of the year with appreciated securities. As mentioned above, the income tax charitable deduction for a life income gift will be less than an outright gift, but the deduction can still be powerful motivation to make such a gift. Funding a life income gift with appreciated securities generates capital gains savings, as well, but the savings works differently than with an outright gift of the securities.

A gift annuity funded with appreciated securities will avoid capital gain tax on the portion of the gain that is attributable to the gift portion of the annuity. If the donor is also the annuitant, tax on the balance of the capital gain will be reported pro rata over the annuitant's life expectancy, delaying the payment of the capital gains tax.

Gifts of appreciated securities to a charitable remainder trust reduce capital gains taxes as well. A charitable remainder trust can sell appreciated assets and not generate any current capital gain income liability to the donor or the trust. Instead, capital gain taxes are only reportable to the extent the donor receives income that is attributable to the capital gain realized inside the trust.

Conclusion

Your year-end gift giving messaging will probably focus on the impact every gift has on your charity's ability to carry out its mission. That makes sense, but don't be shy to follow your messaging about impact with a reminder that charitable giving can also ease the donor's tax burden. There is no reason to be reluctant about mentioning the tax incentives of an income tax charitable deduction and capital gain tax savings.

Inertia is a powerful barrier to getting donors to take action on outstanding proposals. The pressure of the end of the year can lend some urgency to donor decision-making, especially if they can save taxes, receive income, and make a gift all at the same time. There is significant competition for attention from donors at year-end. Distinguish yourself from the field with a message that gently mixes compassion and tax benefits to your donor.