



A&I Wealth Management

Tax-Smart Giving

Charitable Strategies in Wealth Planning



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ABSTRACT

Thoughtful charitable planning helps you align your wealth with your values while potentially creating income-tax, capital-gain, retirement-income and estate-planning benefits.

The strategy matters. Giving cash, appreciated investments, retirement assets or an interest in a business can produce very different financial and tax results. Donor-advised funds, qualified charitable distributions and charitable trusts can provide additional options for people who want to make philanthropy part of their long-term financial plan.

The key is not simply how much you give, but what you give, when you give it and how the gift fits into the rest of your financial life plan.

Karl Frank, CFP®

Charitable Planning Can Have More Than One Goal

Bill and Linda spent many years building their careers and accumulating savings. Now they are thinking about what they want their wealth to accomplish during the rest of their lives, and after they are gone. They would like to maintain financial security, provide a meaningful legacy for their children and grandchildren, and support their church. They also own investments that have appreciated substantially over time.

Working together with a financial planner, tax professional and estate-planning attorney, Bill and Linda explore several charitable strategies. Some strategies are more complicated, involve charitable trusts, attorneys and accountants. An increasingly popular option, called a Donor Advised Fund, provides both tax benefits and time for Bill and Linda to make charitable decisions. Bill and Linda may want to make qualified charitable distributions from retirement accounts. This article will discuss these as well. Other strategies are more straightforward, and this article starts with the simple strategies first.

The right solution depends on a donor's income needs, tax situation, estate plan, charitable goals, assets and willingness to accept complexity.

The planning question is not, "Which charitable strategy saves the most tax?" It is, "Which strategy best accomplishes the family's goals after taxes, costs, risks and tradeoffs are considered?"

Forms of Charitable Planning

Charitable giving can range from very simple to highly customized. Strategies commonly considered include:

- ✓ Outright cash gifts
- ✓ Gifts of appreciated securities or other property
- ✓ Donor-advised funds
- ✓ Qualified charitable distributions from IRAs
- ✓ Charitable gift annuities
- ✓ Charitable remainder trusts
- ✓ Private foundations
- ✓ Gifts of interests in closely held businesses or real estate

Charitable Strategy Planning Matrix

Choosing a Charitable Structure

No single charitable technique is inherently “best” or “safest.” The appropriate strategy depends on the donor’s goals, assets, time horizon, cash-flow needs, tax profile and tolerance for complexity. The matrix below is designed as a conversation starter.

A high-level comparison for discussing how different charitable-giving approaches may fit within a broader wealth plan.

STRATEGY	TYPICAL PLANNING COMPLEXITY	POTENTIAL TAX CONSIDERATIONS	INCOME POTENTIAL	CHANGE CHARITY AT A FUTURE DATE?
Cash gift	Low	Charitable deduction	No	No
Appreciated securities	Low-Moderate	Tax deduction and capital-gains avoidance	No	No
Donor-advised fund (DAF)	Low-Moderate	Timing of charitable deduction	No	Yes
Qualified charitable distribution (QCD)	Low-Moderate	IRA income and RMD planning	No	No
Charitable gift annuity	Moderate	Gift and income considerations	Yes	No
Charitable remainder trust	High	Tax deduction, income, capital-gains and estate tax considerations	Yes	Yes
Private foundation	High	Expenses, complex tax and administrative rules	No personal income	Yes

Important: This matrix is general education comparison. Actual tax treatment, eligibility, costs, income, complexity and legal consequences vary by strategy and individual circumstances. Clients should consult their financial, tax and legal professionals before implementation.

Outright Gifts in Today's Tax Environment

Sometimes the simplest strategy is the best one.

A donor can make an outright gift of cash or property to a qualified charitable organization. Property might include publicly traded securities, real estate, artwork or ownership interest in a business.

Whether a gift qualifies for an income-tax deduction — and the amount and timing of that deduction — depends on several factors. These factors include the type of organization receiving the gift, the type of property donated, how long the donor has owned the property, the donor's adjusted gross income and whether documentation and valuation requirements are met.

A Significant Change Beginning in 2026

Beginning with tax year 2026, taxpayers who do not itemize may be able to deduct up to \$1,000 of qualifying cash charitable contributions, or \$2,000 for married couples filing jointly. Taxpayers who itemize are subject to a new charitable-contribution floor. In general, the deductible itemized charitable contribution is limited to the amount above 0.5% of adjusted gross income. The 2026 standard deduction is \$16,100 for single taxpayers, \$32,200 for married couples filing jointly and \$24,150 for heads of household.

Those rules create an additional planning question: Should charitable gifts be made evenly each year, or might grouping several years of intended giving into one year produce a more useful tax result? This approach is sometimes referred to as "charitable bunching" and may be paired with another strategy, like a donor-advised fund, discussed later.

Giving to Family Is Different

Many families view gifts to family members as charitable planning. While gifts to people may be charitable, they are not tax-deductible. A gift to a child, grandchild or other individual is generally not an income-tax charitable deduction.

There are, however, separate gift-tax planning rules. For example, tuition paid directly to a qualifying educational institution on another person's behalf may qualify for the federal educational gift-tax exclusion. That does not make the payment a charitable income-tax deduction.

For example, if Bill and Linda want to pay for grandchildren's college, they can do so and the money they pay is removed from their taxable estate. However, they will not get an income tax deduction for the money paid to the college unless it is a donation to the college.

Giving Appreciated Investments

For investors with charitable intent, writing a check is easy. However, it may not always be the most tax-efficient way to give

Suppose Bill and Linda own publicly traded stock that has increased substantially in value. They could sell the shares, recognize the gain and donate the proceeds. Or, they may donate the shares directly to a qualified charitable organization.

This is why charitable planning begins with a review of what the donor owns, not simply the amount the donor wants to give.

If Bill and Linda donate stocks worth \$50,000 and they had purchased them for \$10,000, they avoid \$40,000 of capital gains. The charity gives the donors a receipt, substantiating the donation, and then sells the investment without any tax costs to the charity. Bill and Linda get a \$50,000 tax deduction, avoid taxes on \$40,000 of gains, and the charity gets to spend \$50,000 for their charitable endeavors. Hence, donations of appreciated investments are valuable in many ways.

Employer Stock and Stock Options Require Extra Care

Incentive stock options and other statutory options are generally nontransferable except at death. Nonstatutory options follow different rules, and a transfer or later exercise can still create compensation income for the employee or option holder.

For that reason, anyone considering a charitable gift involving stock options or other executive compensation should coordinate the transaction with the employer, financial advisor and tax professional before exercising or transferring the asset.

Donor-Advised Funds

A donor-advised fund, commonly called a DAF, can be useful for people who want to make a charitable contribution today while deciding over time which charities will receive grants. The DAF sponsor is a charitable organization and the donation is tax-deductible. Some sponsors are large national firms, others are small community organizations.

For example, Bill and Linda contribute assets to a DAF sponsor. Those assets are irrevocably owned and legally controlled by the DAF sponsor. Bill and Linda retain the right to make investment and grant recommendations, but they no longer own the assets. They get the tax deduction in the year of contribution, and can take their time to make a decision on where to donate the assets after that. Bill and Linda appreciate the flexibility the DAF provides them.

A donor-advised fund can provide flexibility for the donor. The donor separates the tax-deduction decision from the charity decision. Contributions provide an immediate tax deduction, but the donor has time to choose which charity will receive the donation. A DAF sponsor charges administrative and/or investment fees.

Giving From an IRA: Qualified Charitable Distributions

For some retirees, the most strategic asset to use for charitable giving may be from an individual retirement account, or IRA.

A Qualified Charitable Distribution, or QCD, is a distribution made directly from an eligible IRA to an eligible charitable organization. The IRA owner must be at least age 70½ at the time of the distribution. Younger than this age, a QCD is prohibited.

For 2026, an individual may exclude up to \$111,000 of qualifying charitable distributions from taxable income. Importantly, each spouse has a separate individual limit, so a married couple can double this amount.

A QCD can also satisfy some or all of an individual's required minimum distribution. As a reminder, an IRA requires distributions after a certain age. Every year we live, the required minimum distribution (RMD) percentage increases. For people born before 1960, required distributions begin at age 73. For people born 1960 or later, RMDs begin at age 75.

For example, Bill and Linda are ages 70 and 75, respectively. Bill could make a qualified charitable distribution in the same calendar year he reaches age 70.5. He can distribute the maximum in that first year of eligibility. In 2026, this means he can contribute \$111,000, even if he does not reach his half-birthday until the end of December. Linda, on the other hand, already has required distributions which she has been paying for several years. If she makes a distribution from the IRA directly to a charity, she has a dollar-for-dollar reduction in her required distributions for that year.

Why Can a QCD Matter?

A qualifying QCD is generally excluded from taxable income. That is different from taking an IRA distribution, reporting it as income and then claiming a charitable deduction. QCDs can be an especially important planning tool for charitably inclined donors.

A taxpayer does not claim a charitable deduction for the QCD. The money comes out pre-tax. And, a QCD does not come out of a Roth IRA; a qualified charitable deduction can only be made from a pre-tax individual retirement account.

Importantly, donors are prohibited from making a QCD to donor-advised funds.

A Newer Split-Interest Opportunity

Federal law permits a one-time QCD for what is called a qualifying split-interest arrangement. A split-interest arrangement requires the donor to set up a charitable trust, which has associated costs and complexities. In 2026, the inflation-adjusted limit for this special election is \$55,000. Specialized requirements apply, so be sure to involve tax and legal professionals before initiating a transaction.

Because the QCD donation limit is small, and the costs to set up and manage these trusts can be substantial, this is likely not going to be a plan for most people. On the other hand, for an individual who already has a charitable trust in place, the QCD split interest donation might help. It provides an opportunity to pull money from an IRA, move it into a charitable trust and not affect a donor's taxable income.

Financial-planning takeaway: For a charitably inclined client over age 70½, one of the first questions may be, "Should this year's gift come from the checking account, the investment portfolio or the IRA?"

Charitable Remainder Trusts

A charitable remainder trust, or CRT, is an irrevocable trust that combines philanthropy with income for one or more noncharitable beneficiaries. In a typical arrangement, a donor transfers property to the CRT. The trust makes payments to one or more beneficiaries for life or for a specified term of no more than 20 years. At the end of that period, the remaining trust assets pass to one or more qualified charities. For the arrangement to qualify under the federal CRT rules, the actuarial value of the charitable remainder generally must equal at least 10% of the initial fair market value of the property transferred to the trust.

The Charitable Deduction

The donor to a CRT may qualify for a charitable income-tax deduction, but not for the entire donated amount. Instead, the deduction is based on the calculated present value of the charitable remainder interest. The deduction is not simply equal to the amount placed in the trust. The “present value” uses a formula set by the IRS. For interest rates today, visit the IRS website and search for IRS Section 7520 interest rates.

Factors such as the beneficiaries’ ages, payout rate, trust term, asset value, Section 7520 rates and other tax rules affect the calculation. The deduction is also subject to applicable charitable-contribution limitations. Expert tax and legal advice is essential.

What Happens to Capital Gains?

A CRT may allow a donor to defer recognition of income taxes associated with the sale of appreciated assets inside the trust, rather than personally recognizing the entire gain at the time of sale.

That does not mean the capital gain disappears.

Payments from a CRT to noncharitable beneficiaries are taxable. Tax rates are ordinary income, capital gains or other categories. This distinction is especially important when evaluating a CRT as part of a business-sale or concentrated-stock strategy. The donation to the CRT can provide substantial first-year tax benefits, and income over a long period of time. However, an equivalent donation to a charity, or to a DAF, provides a larger first-year tax deduction than a donation to a CRT. It is important to work with a financial planner, tax and legal experts.

Two Common Types of Charitable Remainder Trusts

CRAT: Charitable Remainder Annuity Trust

A Charitable Remainder Annuity Trust, or CRAT, pays a fixed dollar amount to its noncharitable beneficiary or beneficiaries each year. The annual payout must generally equal at least 5% and no more than 50% of the initial fair market value of the trust property, while still satisfying the required charitable-remainder test.

Because the dollar payment does not change simply because investment values rise or fall, a CRAT may appeal to someone who places a high value on predictable payments. That predictability also creates tradeoffs: poor investment performance or inflation can reduce the purchasing power or financial strength of the trust over time.

CRUT: Charitable Remainder Unitrust

A Charitable Remainder Unitrust, or CRUT, pays a fixed percentage of the trust's value, recalculated annually. If the trust grows, the dollar payment can increase. If the trust declines in value, the payment can decrease.

Like a CRAT, the annual payout generally must be at least 5% and not more than 50%, with the charitable remainder meeting its separate qualification requirements.

Neither structure is inherently “better.” The decision involves anticipated cash-flow needs, investment risk, age and life expectancy, charitable intent, the asset being contributed and the overall estate plan.



Providing for Family Alongside a Charitable Gift

A common concern about making a large charitable donation is simple: “If these assets ultimately go to charity, what does that mean for my children?”

One planning strategy is to evaluate life insurance on the donor.

An irrevocable life insurance trust — or ILIT — owns insurance on the donor’s life. If the trust is properly drafted, funded and administered, and applicable estate-tax rules are satisfied, insurance proceeds remain outside the insured’s taxable estate.

That outcome is not automatic.

Federal rules can include life-insurance proceeds in the taxable estate if the insured retains ownership, such as the ability to change beneficiaries, surrender or cancel the policy, assign the policy, pledge it for a loan or borrow against its cash value. Transfers of a life-insurance policy within three years of death can also create estate-inclusion issues.



Funding the Insurance Trust

Contributions used to pay insurance premiums can also have gift-tax consequences. For 2026, the federal annual gift-tax exclusion is \$19,000 per recipient, while the federal basic estate-and-gift exclusion amount is \$15 million per individual. However, a gift to a trust does not automatically qualify for the annual exclusion. A financial planner will work with an attorney, life insurance expert and tax planner to come up with the best solutions.

For many clients, the \$15 million exclusion changes the planning conversation. Charitable giving can still reduce a taxable estate, but many families do not need the tax benefits because they own less than \$15 million. Philanthropy is more than a tax planning strategy.

Why Not?

Tax benefits alone are not a reason to create a charitable trust, donor-advised fund or life-insurance strategy. These strategies can be powerful, but they involve tradeoffs.

Irrevocability.

Charitable strategies involve permanently transferring ownership or control of an asset.

Investment risk.

A donor advised fund provides an immediate tax deduction, but because the proceeds are invested, a DAF carries the usual investment risks. A CRUT's distributions may decline when asset values decline. A CRAT's fixed payments can place pressure on the trust if investment performance is poor.

Tax uncertainty.

The tax benefits depend on the taxpayer, asset, charitable recipient and structure. Tax law is subject to change over time.

Costs and complexity.

Complicated charitable plans may involve attorneys, accountants, trustees, investment managers, insurance professionals and charitable sponsors; all of them likely charge fees.

Insurance risk.

A wealth-replacement strategy can depend on insurability, policy costs and the long-term performance of the policy.

Family considerations.

A sound strategy might be a poor strategy if family members do not communicate with each other. A donor's intentions might conflict with broader estate-planning goals.

Charitable deduction versus charitable intent.

Sometimes the best charitable strategy is the simplest one: make the gift directly to the organization you want to support.

Tax benefits can help inform a philanthropic decision — not create the philanthropic decision.

Afterword

Charitable giving is deeply personal. The financial-planning opportunities can also be significant.

A charitable strategy can affect income taxes, investment gains, retirement distributions, estate planning, family wealth and future cash flow. The best planning happens when those pieces are evaluated together.

Tax laws and contribution limits change frequently. Before implementing a charitable strategy — particularly one involving retirement accounts, appreciated property, closely held businesses, charitable trusts or life insurance — coordinate the transaction with your financial advisor, tax professional and attorney.

Important Information

DISCLOSURE

This material is provided for general educational and informational purposes only and should not be construed as individualized investment, tax, accounting or legal advice. The information reflects federal law and guidance available as of 2026 and is subject to change. Tax consequences depend on individual circumstances, and state and local tax laws may differ from federal law.

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Investing involves risk, including possible loss of principal. Charitable, trust and insurance strategies may involve fees, expenses, restrictions, irrevocable transfers and other risks. No strategy can guarantee a particular tax, investment, income or estate-planning result.

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