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Contemplating a gift to charity? Be smart about it!

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We're nearing the season to give to our favorite charities. Be smart about it! You can do better than just writing a check. Here's a sampling of strategies to use.

· Do you drop twenty dollar bills in the red Salvation Army bucket? Or nod "yes" when the grocer asks if you want to donate to the store's charity? You can give 25% more! Write a check, and take the tax deduction. If you drop a $20 in the red bucket 10 times over this holiday season, that's $200. If you and your spouse earn over $74,000, you pay taxes at the 25%+ tax rate. Writing a check for $200 and taking the deduction on your tax return saves you $50 which you can add onto your next check to charity.

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· Check your brokerage statement on your taxable accounts to review the advantages of giving appreciated stock to charity. Find the investment with the highest % of gain. You can save yourself some of the taxes due on the capital gain inside that holding. Since your charity does not pay taxes, they receive the full market value of the holding. If you bought Investment A for $12,000 and it's worth $20,000, that's a 67% gain ($20,000-$12,000 divided by $12,000). If Investment B has a 25% gain, it's better to gift Investment A. If you make a $20,000 one-time gift to your church's capital fundraising campaign, you'll save $1,200 in taxes ($8,000 gain times 15% tax rate).

One of our clients, Bart and Martha have a lot of bank stock at very low cost. Bart was an officer at the bank for most of his career. When we first started working for them, and reviewed their tax return, we noticed annual gifts of cash to their church. We recommended they change that to gift the bank stock, in order to save paying capital gains taxes.

If you give to a charity weekly or monthly throughout the year, year-end is a good time to make arrangements to stop in January, and then make a one-time gift instead, using an appreciated investment. Many portfolios have holdings with substantial appreciation since the current bull market is one of the longest in history.

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· Use inherited investments for charitable gifts. Did your parent pass away in recent years and give you an investment with a low cost basis (purchase price)? Or, did you inherit a stock where cost basis wasn't even known? Consider using these investments for your donation. That avoids spending hours to recreate an exact cost basis, if it's even possible, or paying your CPA to determine reasonable basis.

Our client Carol and John inherited $9,000 of Halliburton stock from her mother. We reviewed their tax return and noted they tithed to their church. We recommended they gift the Halliburton, barring any sentimental reasons to hold onto the stock.

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· If you're taking minimum required distributions from your IRA account, then you're eligible to make a QCD, or qualified charitable distribution directly to your favorite charity. You can donate a portion of the minimum required distribution, and then take the rest yourself. But before creating more paperwork, make sure there's an advantage for you.

Your minimum required distribution is taxed. The QCD lets you avoid declaring that amount as taxable income, but you also lose the tax deduction for the charitable contribution. The net effect is to lower the adjusted gross income of your tax return, which may in turn lower how much of your social security is being taxed. A $2,000 QCD will likely have minimal effect; a $20,000 QCD gift might. It takes a large IRA account to generate a $20,000 minimum required distribution.

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· If you pay taxes in Kansas or Missouri, you can use the state tax credits each offers to leverage charitable giving. Their websites show the charities offering state tax credits for the current year. It's easier to focus on the cause and not the specific charity since some of these charities are outside of Kansas City. I've long used one of these myself to support educating low income people about good financial planning through the Individual Development Account program.

Missouri shows these under "miscellaneous tax credits" at http://dor.mo.gov/taxcredit/. A couple of examples are children in crisis, and family development account credits. You'll need to contact them for the names of charities offering these credits.

Kansas calls these community service tax credits and individual development account credits, at http://www.ksrevenue.org/taxcredits.html. Kansas makes these a little easier to track down by showing the charities that offer these credits at http://www.kansascommerce.com/index.aspx?NID=117 under "Related Documents".

You'll get a state tax credit for 50% of your donation. Even though you lose the deduction on the state tax return, the credit is far more valuable to you. Some credits may only be available to that state's residents.

Our clients Jane and Jake contributed to The Lighthouse in Missouri for many years. They are passionate about the charity's mission, and they benefited from Missouri's tax credit as well.

Here's the math. If your marginal federal tax rate is 25%, and you give $2,000, that saves $500 on your federal return as an itemized tax deduction. If that charity also gives these 50% state tax credits, your $2,000 gift saves you $1,000 on your state return as a tax credit. So your $2,000 gift saved you a combined $1,500 in taxes ($500 federal + $1,000 state).

· To maximize leverage of the gift even further, many of these state tax credits will accept donations of appreciated securities. You will want to have the charity confirm they can accept securities with the state's manager of the tax credits. We have clients who have donated appreciated investments for several years. That saves you capital gains taxes as well.

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Before just dropping twenty dollar bills into Salvation Army's red buckets this year, analyze your best options. Plan ahead to give smart!

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