Charitable Planning

Creative charitable giving ideas for donors who want to give more.

By Eva Stark, JD, LL.M.

The United States consistently ranks among the most charitable nations in the world. For many Americans, giving typically involves writing a check or entering credit card information, saving receipts for tax purposes, and hoping everything aligns come tax season.

However, with a bit of forethought and the use of more strategic charitable giving methods, donors can go beyond simple contributions — achieving greater tax efficiency while making their gifts even more impactful.

Overview of the tax treatment of qualifying charitable contributions

From an income tax perspective, contributions to qualifying charities are generally deductible as an itemized deduction for up to 20%, 30%, or 60% of the donor's adjusted gross income (AGI).

Limits tend to be more restrictive with respect to contributions made to non-public charities, non-cash gifts, or donations valued at fair market value rather than cost basis. Excess charitable contributions may typically be carried forward for up to five years.

The One Big Beautiful Bill Act (OBBBA), signed into law on July 4, 2025, introduced several changes to the charitable deduction framework.

Beginning with the 2026 tax year, a new "above-the-line" deduction allows taxpayers to deduct up to



$1,000 per individual ($2,000 for joint filers) for cash contributions to qualifying charities. Donations to donor advised funds or private non-operating foundations are excluded. This provision enables non-itemizers to receive a limited income tax benefit for eligible charitable contributions.

The OBBBA also established a 0.5% of AGI floor on itemized charitable deductions starting in 2026, meaning that deductions below this threshold will not generate a tax benefit.

In addition, a new 2/37th limitation applies to taxpayers in the highest (37%) tax bracket, effectively capping the tax benefit of itemized deductions at 35%.

Donating long-term appreciated, publicly traded securities to a public charity

While many donors may own highly appreciated, publicly traded securities (e.g., stocks, bonds, mutual funds, etc.) held for over a year, few think about donating securities to charity instead of cash. The potential benefit of donating appreciated securities is twofold:

1. There is generally no income recognition to the donor when the appreciated security is transferred to the charity; and,
2. The donor may be entitled to a charitable deduction equal to

the full fair market value of the security—subject to itemization and a limitation of 30% of AGI.

EXAMPLE 1:

Michael and Roberta own various publicly traded securities in their brokerage account. Their position in a technology stock appreciated substantially over the past few years and has become an outsized portion of the portfolio. Michael and Roberta wish to make a $10,000 gift to a public charity. The couple is in the 15% capital gains bracket and any additional capital gains they realize are also subject to the 3.8% net investment income tax.

As shown in this example, by gifting long-term appreciated stock instead of selling the stock and gifting cash, Michael and Roberta have avoided additional income and could choose to utilize tax savings for additional charitable gifting.

As a bonus, they have reduced their concentrated position in the technology stock without realizing any capital gains and could reinvest in other securities or even the same stock at a higher cost basis. Avoidance of the additional $12,084 of income might also help them qualify for other deductions, credits, or benefits, depending on their specific circumstances.



EXAMPLE 1	Security is sold; net cash proceeds donated	Security is donated
Value of securities needed for contribution:	$12,084	$10,000
Basis:	$1,000	$1,000
Additional income reported:	$11,084	$0
Income tax rate:	18.8%	NA
Potential tax:	$2,084*	$0
Net gift to charity:	$10,000	$10,000
Potential deduction for gift:	"Above-the-line" or itemized	Itemized

** Figure shown may be reduced to the extent charitable contribution deductions can be utilized. Figures are rounded to the nearest dollar.*

Funding a donor advised fund (DAF)

A DAF may be thought of as a charitable checking account and/or brokerage account. Contributions to the account are generally deductible for the donor in the year of the contribution (subject to itemization and AGI limitations), the account may be invested to grow tax free, and the donor may make nonbinding recommendations for gifts from the account to qualifying charities for years. Many community foundations, financial institutions and public charities offer DAFs. Account minimums, fees, grant size minimums, assets accepted, etc., vary widely.

Key benefits of a DAF strategy:

- It allows donors to time charitable contributions in a more tax-efficient manner; and,
- Contributions grow tax-free for greater future giving.

A large donation to a DAF might be advantageous in a year where the donor has unusually high income or if "bunching" or "accelerating" multiple years' donations into a single year's contribution creates tax advantages based on the donor's circumstances.

Utilizing a qualified charitable distribution

Unlike the gifting of appreciated securities or funding of a donor advised fund, the qualified charitable distribution (QCD) is only available to taxpayers over the age of 70½.

A QCD entails a direct transfer of pre-tax IRA funds from the custodian to a qualifying charity. Qualifying

charities for QCD purposes generally do not include private foundations, supporting organizations, or donor advised funds.

The strategy's main benefits are that a qualifying charitable distribution:

- Is excluded from income (without relying on any deduction); and,
- Will generally help satisfy the account owner's required minimum distributions ("RMDs") for the year.

The maximum annual distribution that may qualify is $108,000 in 2025; $111,000 in 2026. Married persons may each make a QCD from their own IRAs, thereby potentially doubling the amount available to a married couple.

EXAMPLE 2:

Angela is 76 years old, single, and the RMDs from her IRAs total $20,000. She can live comfortably without the RMDs and she would like to donate the full amount of her RMD to her favorite charity. She is in the 22% income tax bracket and lives in a state with no state income tax.

As shown in this example, by donating IRA funds directly to charity, Angela was able to avoid realizing $20,000 of additional income. While without the QCD, Angela might have received an income tax deduction (subject to limitations) which might have offset some of the additional tax due, a QCD often produces additional tax savings or allows for larger charitable gifts.

Avoiding additional income is often more beneficial than an income tax deduction as it not only lowers taxes, but may preserve eligibility for other credits, deductions, or benefits (e.g., may help avoid income-related monthly adjustment amount [IRMAA] surcharges on Medicare premiums).

Creating a charitable remainder trust (CRT)

A CRT entails the transfer of cash or other property to an irrevocable trust that provides an income stream back to the donor (or other beneficiaries). The income stream may be for a term of up to 20 years or for the life of the donor, and may begin immediately or at some future time.

Assets remaining at the termination of the CRT pass to the charity designated in the trust instrument. The donor can generally receive an immediate income tax deduction for the present value of the charitable gift, subject to certain limitations.

Real estate or low-basis securities may be attractive assets for funding a CRT as these may produce little income but might trigger substantial taxes upon liquidation.

A CRT can generally liquidate assets income-tax free as a tax-exempt entity and reinvest the proceeds in more desirable, income-producing assets to fund the income stream to the donor.

EXAMPLE 2: Impact of cash donation vs. QCD	RMD withdrawal and subsequent donation of net proceeds	QCD
Distribution from IRA:	$20,000	$20,000
Additional income reported:	$20,000	$0
RMD satisfied:	Yes	Yes
Income tax rate:	22%	NA
Potential tax:	$4,400*	$0
Net gift to charity:	$15,600	$20,000
Potential deduction for gift:	"Above-the-line" or itemized	No deduction

** Figure shown may be reduced to the extent charitable contribution deductions can be utilized.*



Note that it is important that assets are transferred to a CRT in advance of any agreement to sell such assets to a third party. Taxes on the income stream produced by the CRT are generally payable as payments are made from the CRT, under a tiered system (first ordinary income, then capital gains, then other income, and finally, principal).

Wealth replacement trust

In addition to the strategies briefly touched on above, charitable giving ability may be leveraged even further by utilizing life insurance. Some donors may be hesitant to give to charity for fear that the legacy they desire to leave to their heirs will be diminished. In such situations, a "wealth replacement trust" may be considered. The technique involves the purchase of a life insurance policy on the donor, in an amount sufficient to replace or exceed the value of property gifted to charity. The policy is generally held in an irrevocable trust designed for creditor protection and to avoid inclusion of the death benefit in the donor's taxable estate.

The donor might utilize, in part, the income stream from a charitable remainder trust or potential tax savings to make gifts to the irrevocable life insurance trust to fund policy premiums.

At the donor's death, policy death benefits are collected by the trustee, generally income-tax free, and can remain protected from potential creditors or beneficiaries' mismanagement for generations.

Final thoughts

Tax consequences for charitable giving strategies vary widely depending on a donor's particular circumstances.

Charitably inclined individuals should always thoroughly assess their objectives and chosen strategies with their CPAs and other financial professionals before choosing these and other charitable giving tools.



About the author:

Eva Stark, JD, LL.M., joined The Nautilus Group in 2014 to assist with the development of estate and business plans and perform advanced tax research. Eva graduated *summa cum laude* with a BS in economics and finance from The University of Texas at Dallas. She earned her JD, with honors, from Southern Methodist University, where she served as a student attorney and chief counsel at the SMU Federal Taxpayers Clinic. She received her LL.M. in taxation from Georgetown University Law Center. Prior to joining Nautilus, Eva worked in private practice in tax controversy, business law, and litigation.

As a result of H.R.1 of the 119th Congress (commonly known as the One Big Beautiful Bill Act), the estate, gift and generation skipping tax exemptions amounts enacted under the Tax Cuts and Jobs Act of 2017 were made permanent. Effective January 1, 2026, the exemption amount rises to $15 million per person ($30 million for a married couple), with continued annual adjustments for inflation. For asset transfers in excess of the applicable exemption amount and otherwise subject to such taxes, the highest applicable federal tax rate remains at 40%. In addition, under different rates, rules, and exemption amounts (if any), there may be state and local estate, inheritance, or gift taxes that apply in your circumstances. Please consult your own tax or legal advisor for advice pertaining to your specific situation. This material includes a discussion of one or more tax related topics. This tax related discussion was prepared to assist in the promotion or marketing of the transactions or matters addressed in this material. It is not intended (and cannot be used by any taxpayer) for the purposes of avoiding any IRS penalties that may be imposed upon the taxpayer. These materials are prepared by The Nautilus Group®, a service of New York Life Insurance Company, and are made available to all Nautilus Group member agents and, as a courtesy, to select agents of New York Life Insurance Company. Nautilus, New York Life Insurance Company, its employees or agents are not in the business of providing tax, legal or accounting advice. Individuals should consult with their own tax, legal or accounting advisors before implementing any planning strategies. SMRU 5018579 Exp. 1/31/2029