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Charitable Giving Strategies for 2024: Maximizing Impact and Tax Benefits

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As we start year-end planning, charitable giving remains one way to support causes close to your heart while taking advantage of tax-efficient strategies. With anticipated tax law changes on the horizon and a continued focus on maximizing giving power, it may be beneficial to explore some options available to those that are charitably inclined.

This article highlights three charitable giving strategies: Donor-Advised Funds (DAFs), Qualified Charitable Distributions (QCDs), and Charitable Remainder Trusts (CRTs).

1. Donor-Advised Funds (DAFs)

A Donor-Advised Fund (DAF) is one popular option due to simplicity and tax advantages. A DAF is a charitable investment account that allows individuals to contribute assets to support charities. DAFs allow donors to make charitable contributions, receive an immediate tax deduction, and recommend grants to charities over time.

Key Benefits for 2024

- **Immediate Tax Deduction:** When a person contributes to a DAF, they receive an income tax deduction in the year the donation is made. The tax deduction allowed is up to 60% of Adjusted Gross Income (AGI) for cash donations and up to 30% of AGI for securities and other appreciated assets (such as closely held stock). Any excess contribution may be carried forward and deducted up to the applicable limit in the 5-year period after the year of contribution.
- **Flexibility:** Once donors contribute to their DAF, the funds are irrevocably dedicated to charitable giving. However, the funds are "donor-advised," meaning that while donors have no direct control over the fund, they can recommend how their funds are invested and which charities will be granted disbursements over time. The ability to recommend grants over time allows donors to structure their giving to meet their potentially evolving charitable wishes.
- **Growth Potential:** Contributions to a DAF can be invested, allowing the fund to grow tax-free over time. This can allow an increase in the charitable impact of the original gift.

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“I believe successful wealth management is the result of an ongoing collaboration between investor and advisor, built upon trust and maintained according to the highest standards of integrity and knowledge.”

Brian D. Holmes
MS, CFP®, AIF®

President & CEO

ABOUT SEIA

Signature Estate & Investment Advisors, LLC® (SEIA) is an investment advisory firm offering Investment Management and Financial Planning Services. Our experienced team of professionals collaborates with you to create customized investment, estate, or financial plans that address your unique goals and objectives. Our commitment to successful wealth management is built upon deeply-rooted and meaningful client relationships, a key driver in our 25 years of delivering client-centric wealth management solutions.

Len Hirsh Promoted to Partner

Please join us in congratulating Len Hirsh on his promotion to Partner at SEIA!

Len Hirsh
MBA, CFP®, CPWA®, AIF®
Partner

For over nine years, Len has been a key member of SEIA, providing exceptional wealth management services to high-net-worth individuals and organizations, including entrepreneurs, executives, athletes, and entertainers.

Len has played a pivotal role in SEIA’s national expansion efforts, establishing the firm’s presence in Chicago, Salt Lake City, Nashville, Denver, Colorado Springs, Boise, and Dallas. His contributions have been instrumental in enhancing SEIA’s reputation and footprint nationwide. Beyond his advisory work, Len also supports SEIA’s mission to aid local youth through the Signature Fund for Giving.

Len is a CERTIFIED FINANCIAL PLANNER® professional, a Certified Private Wealth Advisor® (CPWA®), and an Accredited Investment Fiduciary® (AIF®). He holds a Master of Business Administration (MBA) in finance, marketing, and entrepreneurship from the UCLA Anderson School of Management, where he was honored with the Larry Wolfen Entrepreneur Award. He also earned his Bachelor of Arts degree from Colgate University.

We are proud to have Len as a Partner and look forward to his continued impact on SEIA’s future.

Fed Rate Cuts: Implications for Your Portfolio

By Gene Balas, CFA®
Investment Strategist

After an unprecedented rate-hiking cycle aimed at controlling the inflationary effects of Covid-era stimulus, the Federal Reserve (Fed) appears largely on track in its goal of combating inflation. Now, the Fed seems to have entered a new phase: a cycle of rate cutting in hopes of providing a soft economic landing. One might ask, however, why is the Fed even cutting rates in the first place—and what does that mean for your portfolio?

Why Is the Fed Cutting Rates?

To understand the Fed's decision to cut rates, it's essential to recognize the Fed's dual mandate: supporting maximum employment while maintaining price stability. It does so primarily by adjusting the short-term interest rates it controls, which help determine the interest rate on many loans, such as credit cards, some car loans, and businesses' shorter-term borrowing, among other rates.

However, note that the rates on longer-term loans—such as mortgages—and yields on corporate and municipal bonds, are based on Treasury bond yields, which are largely market-driven, though may be influenced by Fed policy.

The Fed raises rates to make borrowing more expensive, thus reducing the demand for goods and services to combat inflation. Conversely, rate cuts are intended to stimulate the economy by lowering borrowing costs, encouraging spending, and boosting employment. With inflation moderating and concerns rising about potential economic slowing, the Fed has shifted its focus from reducing inflation to supporting employment.

Currently, the Fed funds rate remains above the "neutral" rate, a level that neither stimulates the economy nor slows it, placing current monetary policy in a restrictive zone. By cutting interest rates, the Fed is now moving closer to reaching this neutral interest rate. As such, investors should regard the Fed's move as a return to a more normal interest

rate environment, where the Fed is neither trying to combat inflation nor stimulate growth. The Fed's goal is to reach a "soft landing", where economic growth slows enough to reduce inflation but not so much that unemployment increases by an undesired amount.

What Do Rate Cuts Mean for Your Portfolio?

Next, as to the question of what the Fed rate cuts mean for your portfolio, there are some key themes.

1. **Bonds:** When interest rates fall, existing bonds become more valuable, and their prices typically rise. Why? Because they were issued at higher rates, making them more attractive than new bonds issued at lower rates. However, new bonds will offer lower yields, which means less income for investors. Of course, not all bonds react the same way—corporate or municipal bonds as well as mortgage-backed securities, which carry credit risk, may not necessarily rise or fall in tandem with Treasury bonds, which do not have credit risk.

2. **Stocks:** Historically, stocks have often performed well following Fed rate cuts, particularly if the economy avoids a recession, though past performance does not guarantee future results. Lower interest rates can stimulate economic growth by making borrowing cheaper for businesses, potentially boosting their profits. Plus, lower interest rates can lead to higher stock prices by making the future earnings or dividends of a company more valuable in current dollars. Sectors that tend to pay high dividends, like real estate and utilities, may become more attractive to income-seeking investors as yields on savings accounts and bonds decline, as can certain financial stocks like banks.

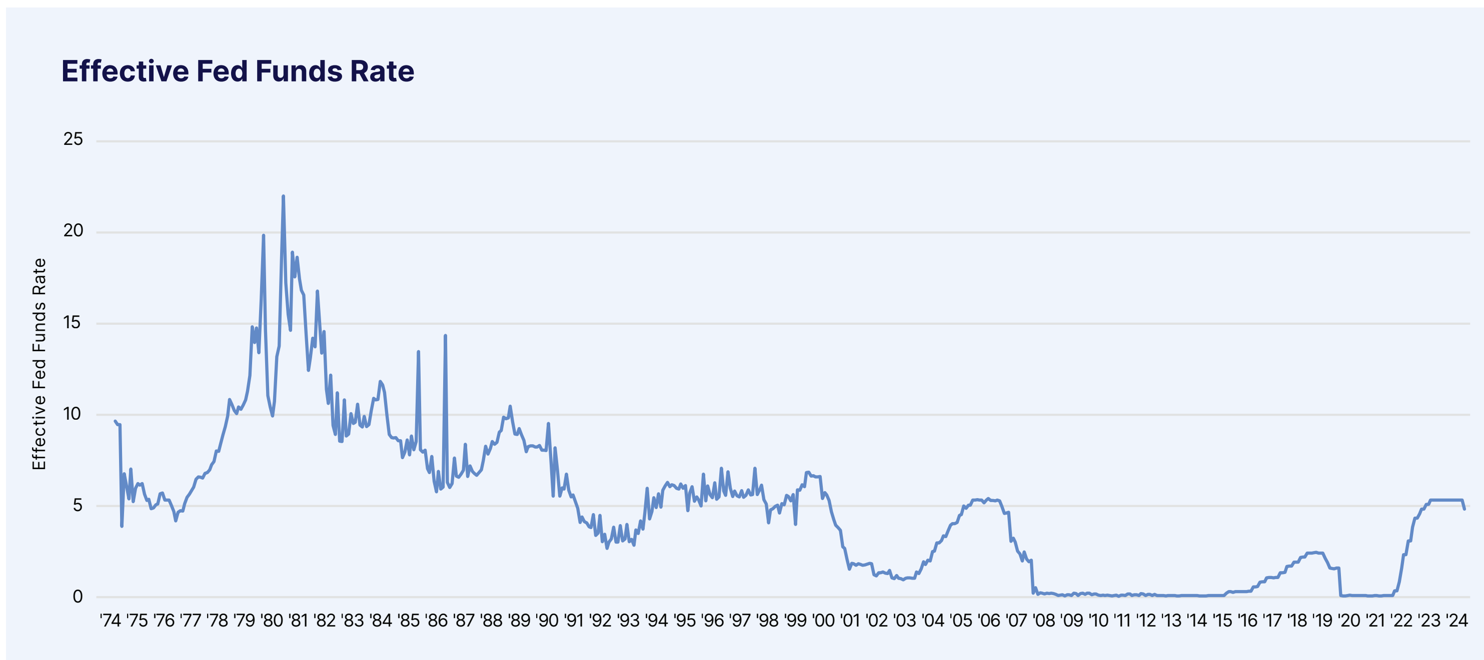
3. **Savings Accounts and CDs:** For savers, rate cuts typically mean a decrease in the interest earned on savings accounts and certificates of deposit (CDs). This can be disappointing for those relying on interest income, as their cash savings won't grow as quickly.

4. **Real Estate:** Rate cuts may favor investments in commercial real estate or real estate investment trusts (REITs), especially those that pay high dividends. As borrowing becomes cheaper, these investments may become more attractive for income-seeking investors.

Conclusion

While the Fed's rate cut is generally positive for investors, it's important to remember that economic conditions can change rapidly, and many factors influence the price of investments beyond Fed policy. The key is to stay informed, maintain a diversified portfolio aligned with your long-term goals, and avoid making drastic changes based on short-term market movements.

At SEIA, we're here to help guide you through these changes and help ensure that your portfolio is properly positioned for not only Fed rate cuts but also the many other economic variables that shift constantly over time. We offer many different types of investment solutions, all of which are tailored to your investment goals and risk tolerance. As always, consult with your advisor for personalized guidance based on your unique circumstances and goals.



Source: FactSet. Data through 9/30/24.

Fixed income investments are subject to various risks including changes in interest rates, credit quality, inflation risk, market valuations, prepayments, corporate events, tax ramifications, and other factors. Asset allocation and portfolio diversification cannot assure or guarantee better performance and cannot eliminate the risk of investment losses. SEIA is not engaged in rendering legal, accounting, or tax services. We recommend that all investors seek out the services of competent professionals in any of the aforementioned areas.

DAFs may be ideal for donors who want to make irrevocable charitable contributions now, and receive an immediate tax deduction, but disburse funds to charities over time.

2. Qualified Charitable Distributions (QCDs)

A Qualified Charitable Distribution (QCD) allows individuals aged 70½ or older to make a distribution of funds from Individual Retirement Accounts (IRAs) *directly* to a qualified charitable organization. In 2024, the QCD limit is $105,000 per person. For married couples, each spouse can make a QCD up to the $105,000 limit for a potential total of $210,000 in 2024.

This method bypasses traditional income tax liabilities that would otherwise apply to IRA withdrawals because the gift goes directly to the charity. In that way, the dollar amount of the QCD never passes through the individual's hands and may be excluded from their taxable income.

To better understand QCDs, it may be helpful to also understand required minimum distributions (RMDs). Beginning in 2023, the SECURE 2.0 Act raised the age to begin taking RMDs to 73. At that age, individuals are required to take RMDs even if they do not need or want the funds. That RMD then increases the IRA holder's total taxable income, which can then potentially push them into a higher income tax bracket and may limit or eliminate certain tax deductions.

Key Benefits for 2024

- **Satisfy Required Minimum Distributions (RMDs):** QCDs can satisfy part or all of an individual's RMD for the year, helping to avoid additional taxable income.
- **Income Tax-Free Distribution:** Unlike traditional IRA withdrawals, which are taxed as ordinary income, QCDs are not included in taxable income. This can be particularly advantageous for high-net-worth individuals looking to minimize their income tax burden while supporting charities.
- **Low-Impact Giving:** By using pre-tax dollars to make charitable contributions, QCDs can be a tax-efficient way for retirees to give directly to charities.

QCDs may be suitable for retirees who are required to take RMDs but prefer to avoid the taxable income associated with those withdrawals. They may also be effective for individuals with significant assets in tax-deferred retirement accounts who do not need all of the assets to live on.

3. Charitable Remainder Trusts (CRTs)

A Charitable Remainder Trust (CRT) is a tax-exempt irrevocable trust designed to provide income to the donor or other beneficiaries for a specified period, with the remainder of the assets eventually going to charity. The remainder donated to charity must be at least 10% of the initial net fair market value of all property placed in the trust. In 2024, an individual may use up to $53,000 of their QCD to make a one-time donation to a CRT.

Key Benefits for 2024

- **Income Stream:** With a CRT, donors can receive an income stream for a set number of years or for life, depending on the terms of the trust. This can provide financial security while still making a charitable impact.
- **Tax Deduction:** Donors receive an income tax deduction based on the present value of the remainder interest that will eventually pass to charity. If the CRT is funded with cash, the donor can deduct up to 60% of AGI; if appreciated assets are used to fund the CRT, up to 30% of their AGI may be deducted in the current tax year. Any excess contribution may be carried forward and deducted up to the applicable limit in the 5-year period after the year of contribution.
- **Capital Gains Tax Deferral:** When highly appreciated assets (such as stocks or real estate) are contributed to a CRT, the donor avoids immediate capital gains taxes. The trust can sell the assets after they are donated to the CRT, reinvest the proceeds, and distribute income to the donor without triggering capital gains taxes.
- **Estate Tax Reduction:** Assets transferred to a CRT are removed from the donor's taxable estate, which can be a significant benefit for individuals with large estates who are looking to minimize estate tax exposure.

CRTs offer a unique combination of philanthropy and income generation. They may be a good fit for donors who want to secure an income stream while ultimately supporting their favorite charities and reducing estate tax liabilities.

Next Steps

Whether you aim to maximize the tax benefits of your generosity or simply help ensure your resources are used in the most impactful way, incorporating these charitable strategies into your year-end planning may be one way to give back while helping to secure your financial future.

Selecting the right charitable giving strategy depends on several factors, including your financial goals, the assets you wish to donate, and the tax implications. It is important to schedule a time to talk with your advisor to determine which strategies may maximize the charitable impact and tax benefits for your personal situation.

SEIA is not engaged in rendering legal, accounting, or tax services. We recommend that all investors seek out the services of competent professionals in any of the aforementioned areas.

Signature Fund *for* Giving

The Signature Fund for Giving is dedicated to cultivating meaningful relationships with our partners and supporting ongoing initiatives to empower local youth.

This year, the Fund once again supported the annual Back to School Event, benefiting our partner organization, A Place Called Home. Over 1,000 backpacks filled with essential school supplies were distributed to youth in South Central Los Angeles, helping ensure that hundreds of students are well-equipped with the tools they need for a successful school year. We are proud of A Place Called Home's unwavering commitment to helping local youth in developing healthy, fulfilling, and purposeful lives.

If you have any questions regarding our fund or how to participate, we invite you to contact Hayley Wood Bates at (310) 712-2323 or hwood@seia.com

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