

Year-End Tax Planning Tips: Donor-Advised Funds and Gifting Strategies

December 23, 2024



As the end of the year approaches, it's a great time to evaluate your financial situation and take advantage of tax planning opportunities. Two strategies to consider before the year's close are contributing to donor-advised funds and leveraging gifting options to reduce estate taxes.

Donor-Advised Funds: A Flexible Giving Strategy

Donor-advised funds (DAFs) offer a tax-efficient way to support charitable causes while providing flexibility in how and when donations are distributed. Some of the key benefits include:

1. **Immediate Tax Deduction:** Contributions to a DAF are tax-deductible in the year they are made, even if one chooses to distribute the funds to charities at a later date.
2. **Asset Contributions:** An individual can contribute cash, stocks, or other appreciated assets. Donating appreciated securities allows one to avoid capital gains taxes while maximizing their charitable deduction.

Note: The most tax-efficient way to make charitable contributions before year-end is to give appreciated, publicly traded stock that has been held for more than a year. By doing so, donors receive a charitable contribution deduction equal to the fair market value of the securities contributed and avoid paying capital gains tax (and the 3.8% surtax on net investment income) on their built-in appreciation. This is a much better result than selling the stock, paying a capital gains tax, and using the proceeds to make cash contributions to charity. Also, the donation of appreciated, publicly traded securities does not require a qualified appraisal to establish the value of the deduction.

3. **Bunching Donations:** If a taxpayer is near the standard deduction threshold, they can “bunch” several years’ worth of charitable contributions into a single year by using a DAF, potentially increasing their deductions for the current year. Prepaying charitable contributions on an alternating or every few years basis allows taxpayers to itemize deductions in the year contributions are made and use the standard deduction in years when there is little or no charitable giving.

If a taxpayer would like to create a donor advised fund in 2024, they can establish one as late as December 31st; however, additional time may be required if the taxpayer plans to fund the account with anything other than cash.

Gifting to Reduce Estate Taxes: A Planning Strategy to Preserve Wealth

Year-end is also a perfect time for parents and grandparents to make tax-efficient gifts that reduce their taxable estates and preserve their wealth by passing it on to beneficiaries at a minimal tax cost. Here’s what to keep in mind:

- **Annual Gift Tax Exclusion:** For 2024, an individual can gift up to \$18,000 per recipient (\$36,000 for a couple splitting gifts) without triggering gift tax or using their lifetime exemption. Annual exclusion gifting is an excellent way to reduce the value of a taxpayer’s gross estate over time, lowering the amount subject to estate tax.
- **Direct Payments for Education and Medical Expenses:** Payments made

directly to educational institutions or medical providers for someone else's benefit do not count against one's annual exclusion. These payments can be made on anyone's behalf and are not limited to immediate family members.

- **529 Plan Contributions:** Consider contributing to a 529 college savings plan, which grows tax-free for education expenses. One can even make a lump-sum contribution equivalent to five years' annual exclusions (\$90,000 for individuals or \$180,000 for couples in 2024). It's important to know that each state has its own maximum contribution limit, which applies to each beneficiary. For example, New York's limit is \$520,000. As such, it's recommended that taxpayers confirm the specific limits in their state.

Note: Contributions to 529 plans are gifts to the beneficiary of the plan. Cash gifts and 529 contributions to the same beneficiary totaling more than \$18,000 (\$36,000 for a married couple splitting gifts) in 2024 will result in taxable gifts. Similarly, front-loading 529 plans with a lump-sum contribution limits the available tax-free gifts to that beneficiary for the next four years.

By acting before December 31st, one can take advantage of these opportunities to minimize their tax liability while achieving your charitable and estate planning goals.

Please consult your Anchin Relationship Partner to learn more about these and other year-end tax planning strategies and how you can take steps now to optimize the benefits based on your specific circumstances.