The Hanover Advisor

HANOVER ADVISORS

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Making Charitable Giving Part of Your Financial Plan

This has been a year unlike any other. Between the pandemic, hurricanes, and wildfires, millions across the globe have seen their livelihoods threatened and face tough times ahead. Those of us fortunate enough to be able to do so are likely feeling the need to pitch in and help.

When it comes to charitable giving, most of us probably do not give much thought beyond grabbing our checkbooks and donating when prompted. However, with a little bit of forethought and preparation, charitable giving can become an important part of your financial plan, allowing you to make the most of what you give, while also reaping some benefit for yourself by reducing your tax burden. Here are a few things to keep in mind when considering how to work charity into your financial plan:

1. Consider the Recipient

For a donation to be tax deductible, the recipient must be a registered 501(c)(3) or religious organization. To confirm deductibility, you can use the IRS website to check an organization's status at irs.gov/charities-and-nonprofits.

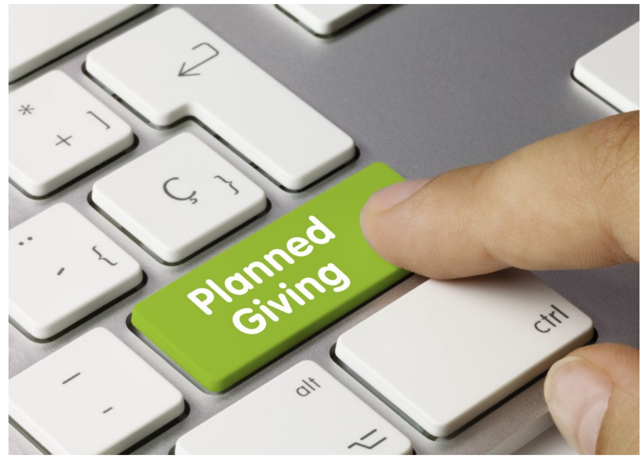
That said, many of us prefer to give directly to our friends, family, or community members in need instead of large organizations. In these instances, you would want to take advantage of the annual gift-tax exclusion. Every year you can give up to $15,000 ($30,000 for married couples) per individual, to as many individuals as you like, without being required to file it on your taxes, potentially triggering tax consequences. Additionally, gifts that go directly to medical or educational institutions to cover someone's bills or tuition are excluded from gift taxes. You can even give five years' worth of gifts ($75,000 for individuals and $150,000 for married couples) as a one-time contribution to a 529 College Savings Plan without incurring gift tax consequences.

While such gifts are not tax deductible, they can be implemented strategically to lessen the estate tax burden that your loved ones may face upon your passing. Instead of leaving one large sum that will be taxed heavily, you can make annual gifts to your loved ones, allowing them earlier access to their inheritance and minimizing their ultimate tax burden.

2. Consider the Timing to Maximize Tax Benefits

Of course, it is best to give whenever you feel the need arises, but there are big benefits to being opportunistic about timing your gifts. You are allowed to deduct up to 60% of your adjusted gross income via charitable donations (as part of the CARES Act, you can deduct up to 100% of your adjusted gross income for donations made in 2020). This means that if you have a windfall year, for instance if you have capital gains from selling an investment or your home, or maybe receive a large bonus at work, you can make a large donation to offset some of the additional tax burden you will face that year.

Another tax-optimized giving strategy is giving to a donor-advised fund. The mechanics of such funds can be a bit complicated, but basically you contribute to a fund that, in the future, gives grants to qualified charitable organizations and non-profits based on your recommendations. This essentially allows you to front-load your giving, donating a large amount now that will be distributed later. Doing so would mean you are able to deduct multiple years' worth of giving in a single year, allowing you to time the deduction for when it would be most advantageous.



3. Donate More than Just Money

Your donations do not have to be limited to just cash and checks. Most people are used to cleaning out their closets for Goodwill or the Salvation Army, but you can also donate furniture, appliances, household goods and even vehicles. All such donations are tax deductible (so long as the recipient is a qualified charity). Keep in mind though that anything valued above $250 requires reliable documentation, and anything valued above $500 would need a qualified appraisal to account for its value.

It is also important to keep in mind that you can donate assets, and there can be big tax advantages to doing so. For instance, if you donate appreciated stock that you have held for more than a year, you can avoid paying the capital gains tax that you would have incurred if you sold it. Furthermore, you can claim the stock's fair market value as a deduction on your taxes, effectively giving you two tax benefits.

This is also worth keeping in mind when it comes to personal gifts. Though such gifts are not tax deductible, you can still avoid capital gains taxes. Gifting appreciated assets to a family member who is in a lower tax bracket allows them to sell the asset and pay less tax than you would have. Be sure not to donate depreciated assets though, as it is more advantageous for you to sell it, harvest the losses, then donate the cash. Unfortunately, tax losses are not transferable to another person.

4. Make Charitable Giving Part of Your Retirement and Estate Planning

When you reach the age of 72, the IRS requires that you begin taking withdrawals from most types of retirement accounts like 401(k)'s and traditional IRA's. These required minimum distributions (RMD's) are treated as taxable income and can increase your yearly tax burden. One way around this—assuming you do not need the income—is to opt for a Qualified Charitable Distribution (QCD) instead of an RMD. This means that if you have a withdrawal go directly to a charity, it will satisfy the RMD requirement, but the amount will not be treated as taxable income. You need to be careful in setting a QCD up, though. If the money is distributed to you, and then you send it to the charity, it will still be treated as taxable income. The funds must go directly from your retirement account to the charity.

If you are looking to make a sizable donation in your later years, you may want to consider establishing a charitable gift annuity or setting up a charitable trust. These are complicated vehicles, and you should contact a financial planning professional if you wish to do so, but these can be a good way to engage in philanthropy while securing a lifelong income for yourself. In effect, you agree to give a portion or all of your estate to a trust that pays income to you or your family for a period of years, and upon your passing, the remainder of the principal is distributed to the charity of your choice.

Milestone Ages for Retirement Planning

No matter what age you are, there are steps you can take toward preparing for retirement. While everyone's retirement plans will differ according to their goals, income, and financial situation here are a few of the key ages where your choices can have a big impact on your golden years.

Age 49 and Under: When you are young, retirement can seem like a lifetime away, and in many ways, it is. However, it is precisely the big gap between your younger years and retirement that make early contributions so important, even if they are small. For those under the age of 50, you can contribute up to $19,500 to your 401(k) and $6,000 to an IRA. Even if you can only afford to contribute a small amount to your retirement accounts, the power of compounding interest means that by the time you reach retirement age, those small contributions could have grown several times over.

Age 50: Once you turn 50, you can begin making "catch up" contributions to your retirement accounts. You can contribute an additional $6,500 to your 401(k) and an additional $1,000 to your IRA every year. This brings the yearly 401(k) contribution limit to $26,000 and the yearly IRA contribution limit to $7,000. If you are behind on savings goals, this can be a good time to ramp up and make sure you are contributing as much as you can.

Age 55: At this age, you can begin taking withdrawals from your employer-sponsored retirement accounts without a penalty *so long as you no longer work for them.* Some take this as an opportunity to "semi-retire," looking for a new part-time job or freelancing. You should be careful about taking withdrawals at this age, however, as you may be missing out on future growth or run into a shortfall in your later years.

Age 59½: You can now begin taking withdrawals from your personal IRA's, as well as your employer-sponsored plans, without penalty, even if you are still employed by them.

Age 62: This is the age when you can begin to receive Social Security benefits, but just because you *can,* does not mean you *should*. Opting to take benefits at this age would reduce your monthly payments for the remainder of your life. If possible, it is usually advantageous to delay taking Social Security

Age 65: At this age, you become eligible for Medicare, but the more important age to keep in mind is 64¾. Even if you are not yet retired and have not yet started receiving Social Security, you should enroll in Medicare as early as possible, which is actually three months before you turn 65. Delaying enrollment could lead to a delay in coverage and you could end up paying a higher premium.

Age 66-67: Depending on the year you were born, you will reach full retirement age at some point be-

tween the ages of 66 and 67. When you reach full retirement age, you can begin receiving Social Security without any reduction to your benefits. However, for every month you wait past full retirement age, you will receive a credit that will grow the size of your ultimate benefit grows.

Age 70: Once you hit this age, there is no benefit to delaying Social Security benefits. If you have not already started receiving them, now is the time to begin.

Age 72: Past the age of 72, you can still receive a tax deduction for IRA contributions so long as you have earned income. Also, you are now mandated to take required minimum distributions from your 401(k) and traditional IRA accounts. The size of your RMD is based on the size of the account, and you will have to pay taxes on these withdrawals. Roth IRA's have no RMD's, so you may want to consider a Roth conversion if you do not need the income.

Hanover Advisor Bulletins
Special Reminders to all Hanover Clients

- Pershing will be implementing a new fee of $2 for mailed hardcopies of monthly statements and $1 for trade confirmations. We recommend that all clients switch to electronic copies of these documents to avoid this fee. If specific statements are needed, Hanover can provide them at no cost, upon request. If you have any questions or concerns about this, please contact us.

- We invite all clients to schedule an online portfolio review. Because we respect your time, we offer three different meeting formats that vary in length and level of specificity. For more information or to schedule a meeting, please contact us.

- Since the start of the pandemic, Hanover employees have been working remotely, conducting meetings online or over the phone. However, we would like to remind our clients that we still have our main office in Greenville, SC and conference facilities in Atlanta, GA. We are happy to hold in-person meetings at either of these locations or any other that works for you.

- The Hanover Advisors website can be accessed at hanoveradvisorsinc.com. There you will find our latest newsletter and investment commentary, articles, our blog, and videos. You can also learn more about our services, access both the Black Diamond performance reporting system and your Pershing brokerage account(s).

- All Hanover clients have free access to our internet-based reporting system known as Black Diamond. This robust system provides comprehensive performance reporting, asset allocation and risk assessment on clients' portfolios. Our office is available to assist in accessing and utilizing the Black Diamond system.