The State of Philanthropy: How CPAs Can Help Donors

Has the pandemic had any effect on charitable giving? Yes—but the results may surprise you.

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What's the state of philanthropy in the United States today? Has the pandemic made an impact? Are people giving more or less to charities?

With a new year approaching, these were the questions I wanted to know, as now is often the time of the year when clients come to me with questions about charitable giving. So, here's what I found.

According to an annual report from the Giving USA Foundation, in conjunction with the Indiana University Lilly Family School of Philanthropy:

- Total giving in 2022 was estimated at just over $499.33 billion, a 3.4% decline from 2021. Broken down by group type:
    - Individuals: $319.04 billion (down 6.4% from 2021).
    - Foundations: $105.21 billion (up 2.5% from 2021).
    - Bequests: $45.6 billion (up 2.3% from 2021).
    - Corporations: $29.48 billion (up 3.4% from 2021).
- 2020 and 2021 were the two strongest years for giving in history.
- It's likely that overall giving fell in 2022 due to economic uncertainty brought on by falling stock prices and rising inflation/interest rates, which reduced disposable income and lowered wealth levels.
- High-net-worth individuals comprise a significant amount of individual giving, and they increasingly utilize non-cash vehicles to donate their gifts.
- More "mature" donors (baby boomers and Gen Xers) often donate out of loyalty and take a hands-off approach to giving. Younger donors (millennials) take a more active approach, like volunteering and annual giving.

Additionally, the Fundraising Effectiveness Project annually surveys nonprofit organizations on their success at raising funds for operating and program expenditures. According to its latest report, overall dollar donations have fallen by 0.7%, and the number of donors have fallen by 3.8% since 2022.

Overall, this research allows me to conclude a couple of things. First, at the height of the pandemic—when workers and others suffered as a result of the economy "closing," coupled with federal government assistance—we saw the highest levels of giving on record. Second, rising stock markets during the pandemic, along with a generational increase in the values of investment securities, left many Americans with the resources needed to meet their charitable intents.

What this tells me is that Americans as a whole are inclined to give to charitable organizations—especially when they have a little extra cash to give.

So, how can CPAs help their clients (at all levels of wealth) meet their charitable intents for the year? Here are three ideas:

1. QUALIFIED CHARITABLE DONATIONS

Individuals aged 70 ½ are eligible to make up to a $100,000 annual donation to qualified charities directly from their individual retirement accounts (IRAs). While no Schedule A (Form 1040) itemized deductions are available for this type of donation, the donated amounts are excluded from taxable income. This donation method is most effective for a taxpayer who's required to take a minimum distribution from their IRA and doesn't need to use the funds for living expenses. Aside from potentially reducing current income, the qualified charitable donation serves to reduce the IRA balance, therefore providing for smaller required minimum distributions (RMDs) in future years.

Your client must process all qualified charitable donations (QCDs) for the year prior to withdrawing any funds that are considered to be part of the RMD. And, if your client plans to do a Roth conversion of any balance in the IRA, that can only be processed after both the QCDs and the RMD payments have already been made. Obviously, with multiple distribution options available to IRAs, you and your client must plan carefully. Further, it's best to consider employing the use of one or multiple QCDs earlier rather than later in the client's tax year.

2. DONOR-ADVISED FUNDS

Donor-advised funds, commonly administered by brokerage and mutual fund firms, are ideal for clients who wish to make sizable donations but choose to do so later in the tax year because of either procrastination or an unexpected increase in their projected taxable income for the year. They can also be suitable for donors who wish to make one or more impactful gifts to a favored charity that might represent an amount equal to at least two or more years' of otherwise annual gifts. A donor-advised fund is a qualified charitable organization and gifts to it are eligible for Schedule A itemized deduction treatment, subject to limits. By making an eligible gift to a donor-advised fund, the taxpayer gets a current year tax deduction for a donation and can hold off on directing that donation to the charity until a future date. Using this strategy, a procrastinating donor can first secure a charitable donation tax deduction, then take their time (well into the future) to evaluate which charity or charities should receive those funds. The donor wishing to use several years' worth of annual donations to make an impactful gift to a favored charity can likewise make the gift well past the years in which they made the donations to the fund.

3. AFTER-TAX DONATIONS

Cash and non-cash donations (such as appreciated securities) are the methods by which most donors make gifts to charitable organizations. Cash gifts—including those by check or credit card—are generally simple, straightforward, and easy for clients to track. However, with the current historically high standard deduction level, many donors will lose the ability to realize an income tax deduction for their donation.

Donations of appreciated securities (stocks, mutual funds, etc.) from a client's after-tax brokerage or other account may also fall prey to the standard deduction level. However, these donations may still be attractive for at least two reasons: 1) they allow a taxpayer who's otherwise feeling cash poor to make a meaningful contribution to their favored charity without depleting cash; and 2) the unrealized long-term capital gains associated with the securities escapes the taxation that the donor might otherwise be subject to if they sold the securities in order to raise cash to make the gift because the charitable organization can liquidate the securities at no tax cost.

Not unlike a QCD, making a gift of appreciated securities should be planned for and executed before the last week of the tax year. Rising markets in recent years have resulted in the rising popularity of this gift vehicle. Consequently, a donor's brokerage or mutual fund firm, which must carry out the transaction with a charity's brokerage firm, may set a deadline of several weeks prior to the year's end.

Now, with the worst of post-pandemic inflation behind us (or at least we hope), it's reasonable to anticipate a pickup in overall charitable giving. I suggest preparing for more client questions on how they can give strategically—hopefully these three options can help.