

## Taking the Pain Out of Charitable Giving

As your thoughts turn to the new beginnings of spring (except here in Boston where we go from winter to summer), many people think about how they can help their favorite charities. Some people walk or ride their bikes while others are at the other end of the pledge sheet and are asked to give. The difficult thing about giving is that It Hurts! When you give something away, whether cash or other property, you lose the enjoyment of the property and you lose control of the property.

There are a number of techniques by which to reduce the pain of giving. Some of the techniques focus on the property gifted and other techniques focus on reducing the loss of enjoyment and/or the loss of control over the gifted property. The first technique is to defer the pain. If the gift is made a day, month, year or at any other point in the future, the pain will be deferred until the gift is made. In the charitable giving arena, this is most often done by making a pledge. One can satisfy the pledge over a period of time in the future. Although the making of a pledge is meaningless from a tax standpoint, the donor is entitled to an income tax deduction when the pledge is satisfied. Another way to make a gift in the future is to make a bequest to a charity. As we will see, this technique often allows the donor to share the pain of the gift.

There are also a number of means to reduce the pain of giving to the donor by sharing that pain. First, the pain can be shared with the donor's employer if the employer has a matching gifting program. Thus, a gift to your alma mater can be satisfied half by each of you and your employer. You can also share the pain of a gift with your family. At the far end of the spectrum, a donor can shift the entire pain to the donor's family by making the gift effective at the death of the donor or at the death of the survivor of the donor and the donor's spouse. In such case, the donor and spouse feel no pain. They have not lost the control or the enjoyment of the property during their lives, but the family members have because they will not get the property as an inheritance.

The third means by which to share the pain of giving is with the federal government. Tax deductible contributions force the federal government to effectively contribute to your favorite charity. Suppose that you had \$100 of "extra" income and you were in the 35% federal bracket. If you gave that \$100 to a charity and deducted the same, you would save \$35 in federal income tax. Thus, the cost to you of the \$100 gift would be only \$65. Stated differently, for roughly every \$2 you contribute to your favorite charity, the federal government would contribute \$1. Consequently, the federal government will reward you for your generosity to YOUR favorite charity.

Many states also reward your generosity, specifically those states where the state income tax is computed based on the federal income tax. People in Florida do not receive such a benefit; however, they do not pay any state income tax so we cannot feel too badly for them. Those of us who reside in Massachusetts are not rewarded for our generosity either because our state income tax is not based on our federal income tax. In a follow up article, I will reveal some creative means by which you can share the pain of giving with the federal government in the form of income tax deductions and estate tax deductions. In this article, I want to set the framework for charitable giving.

Cash gifts are the most painful because they take a fully liquid asset out of the control and enjoyment of the donor. A means by which the pain of giving can be reduced is to donate property other than cash to the charity. A contribution of a stock that pays no dividend has a reduced pain level in comparison to a contribution of cash because the enjoyment of the stock is minimal due to the fact that it does not pay a dividend. Similarly, a contribution of vacant land to a charity has a substantially reduced pain level in comparison to cash because the control and the enjoyment of the vacant land are far less than the value of the land in cash.

Charitable giving brings enjoyment to the donor and to the charity. If you can reduce the pain of a gift, you can give more for the same level of pain. If your pain level for a gift is \$100 and you are in the 35% income tax bracket, donate \$154. After consideration of the tax savings on the income tax deduction, you will have only suffered to the extent of \$100. The federal government rewarded you for your generosity to the tune of \$54. There are many ways to give and many different types of property interests

to be given, I recommend that you consult with your favorite charity and your advisors to evaluate alternative gifting techniques that are the least painful to you.

*The author of this article, Joseph G. Imbriani, Esq., CPA/PFS, practices in the areas of taxation and estate planning and is a partner of the Boston law firm of Taylor, Ganson & Perrin, LLP.*