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Charitable Giving in Transition

Selecting the Best Strategy for Your Clients

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As charitable giving in the US approaches the $600 billion mark, the looming sunset of the Tax Cuts and Jobs Act weighs heavily on philanthropic decisions.

Charitable giving continues to grow as an essential component of financial planning. According to Giving USA, part of the non-profit Giving Institute, American citizens, foundations, and businesses gave just over $557 billion to charity in 2023. Individual private donors accounted for around $374 billion, or roughly 67% of all charitable donations for that year.[1]

Private wealth advisors and their clients now face some important philanthropic decisions, with key provisions of the 2017 Tax Cuts and Jobs Act (TCJA) set to expire on December 31, 2025. The TCJA introduced several temporary changes to the tax code, including nearly doubling the standard deduction for single and joint filers. The net effect of this change was to reduce the number of taxpayers choosing to itemize deductions, which in turn reduced the incentive to make charitable gifts. However, the act also increased adjusted gross income (AGI) limits for charitable contributions from 50% to 60%, which meant that filers who itemized could deduct more of their income through donations to charity.

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Barring a vote by Congress to extend them, these provisions are set to revert to pre-TCJA levels as of January 1, 2026. Advisors and their clients can use this window of time to discuss strategies to take advantage of the current higher limits that favor itemized deductions—for example, "bunching" several years of planned gifts into the current tax year. Advisors should also be helping clients plan for different scenarios in the future—for example, a likely drop in the standard deduction, which would make itemizing more attractive.

Understanding the different ways to give

Advisors have a key role to play in identifying the optimal vehicles and strategies for their clients' philanthropic and tax objectives. It is important to understand the different attributes of the various charitable vehicles available to advise clients effectively during this change. What follows is a listing of the most prevalent means of tax-advantaged giving, including their key features and benefits.

Donor-advised funds

Donor-Advised Funds (DAFs) have proven to be among the most popular avenues of charity, particularly following the enactment of TCJA.[2] A DAF is an account established to support 501(c)3 charities recognized by the IRS. These funds allow donors to make a charitable contribution, receive an immediate tax deduction, and then recommend grants from the fund over time.[3]

Donors can contribute to their DAFs whenever they choose and make grants to their preferred charitable organizations at any time of the year. Clients may only use these accounts for charitable giving. Much of the appeal of DAFs is that they allow a wide range of options for funding the account, from traditional liquid donations such as cash, stocks, bonds, mutual funds, or exchange-traded funds to closely held business interests, fine art, cryptocurrencies, real estate, and other illiquid investments. Assets held in a DAF may be invested, and any appreciation is tax-free to the donor, making DAFs an appropriate vehicle in which to place highly appreciated securities.

Endowment funds

This type of planned giving is another way donors can minimize tax impacts, generate income, and have the principal ultimately benefit their favorite IRS-qualified 501(c)3 charities.

Like DAFs, endowments have proved popular avenues for those looking to give, especially to higher education. In Fiscal Year 2022, philanthropic giving to higher education institutions totaled $59.9 billion. Most of these had restrictions placed upon them, usually scholarship funds and particular research projects, according to Inside Higher Ed.[4]

Donors can set up endowments in one of two ways: with restricted gifts and unrestricted gifts.[5] Restricted gifts limit how the charity can use the donated money. For example, a donor can set up a restricted college endowment fund that only pays scholarships to students who achieve specific academic standards. Unrestricted endowments put no limits on how gifts are used. The receiver of the funds can spend the money for any purpose, giving the recipient financial flexibility.

Charitable trusts

A Charitable Trust is an estate planning vehicle that can be structured to benefit the donor, designated charities, and the donor's beneficiaries. Charitable trusts have certain features in common:

- Assets held in charitable trusts are moved out of a client's estate and reduce the value of the estate, possibly lowering the amount of taxes owed at the time of death.
- Donors may be able to deduct some of their assets put into the trust, per US Internal Revenue Service limits.
- Charitable trusts are irrevocable and cannot be withdrawn once assets are placed in the trust.

There are two main categories of charitable trusts: Charitable Lead Trusts and Charitable Remainder Trusts.

1. Charitable Lead Trust (CLT)

Charitable Lead Trust (CLT) operates for a designated amount of time. With a CLT, charities receive income from the trust. However, when the trust closes, the assets in the trust revert to the trust grantor or whomever the grantor designates.[6] The grantor cannot terminate a CLT at will. The trust ends on the date predetermined at the time of its creation. Donors can contribute cash, marketable securities, real estate, and certain complex assets.

CLTs can be set up as grantor or non-grantor trusts, but advisors need to understand the tax implications. These are not tax-exempt entities. In a grantor charitable trust, the donor maintains control of the trust, allowing the grantor to take a tax deduction when the trust is created. In this situation, the grantor pays taxes on income generated by the trust. In non-grantor trusts, the trust is responsible for the taxes and receives the tax deductions from the charity payments. When the trust terminates, the donor usually pays much less in transfer taxes than with a grantor charitable trust.[7]

Within the CLT category, there are two variations. A Charitable Lead Annuity trust pays the donor a fixed percentage annually until the person dies. In contrast, a Charitable Lead Unitrust calculates the payment each year based on the value of the assets.[8]

CLTs may be appropriate for clients who:

- Own appreciating assets and want to bequeath them to the next generation
- Want to reduce gift and estate taxes
- Are more concerned about maintaining the estate's value rather than receiving income
- Want the charity to receive income immediately[9]

2. Charitable Remainder Trust (CRT)

Charitable Remainder Trust (CRT) is the opposite of a Charitable Lead Trust. In a CRT, people donate assets to charity but receive annual income for a specific time. Donors can contribute cash, marketable securities, real estate, and certain complex assets.

A CRT is created for the donor to give assets to charity and receive income during the donor's lifetime. The donor receives income generated from the assets in the trust. Any remaining assets go to the charity when the donor passes away or after a specified time ends.[9]

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As with Charitable Lead Trusts, there are two types of Charitable Remainder Trusts. A Charitable Remainder Annuity Trust pays the donor a fixed percentage each year until the person dies. A Charitable Remainder Unitrust calculates the payment each year based on the value of the assets.

The IRS says this type of charitable trust can help a donor:

- Plan major contributions
- Provide steady income to the donor, whether for a set period or over a lifetime
- Ensure that the donor can defer income taxes on the sale of assets given to the trust
- Make some charitable deductions[10]

Many charitable options to explore

Charitable giving remains a highly personal decision, yet it requires careful planning to achieve the optional combination of positive impact and tax efficiency—a mutual benefit for worthy organizations, communities, and donors. With the TCJA sunset on the horizon, now is the time for advisors to guide clients through appropriate strategies for both the current environment and the years to follow. By leveraging the right vehicles and strategy at the right time, advisors can help clients make a meaningful difference while securing financial benefits for themselves and their families.

SS&C Trust Suite—Delivering a modern client experience

The SS&C Trust Suite merges the power of industry-leading SS&C offerings including Innovest, the Black Diamond® Wealth Platform, Salentica CRM Solutions, and more.

A complete solution for trust companies and wealth management firms, the SS&C Trust Suite enables firms to deliver a competitive client experience while increasing operational efficiency.

The suite encompasses:

- Front-office tools powered by your back-office data
- Automatic flow of account, transaction, and position data
- Client trust statements and tax forms delivered via an immersive client-experience portal
- Straight-through order processing to ease operational burdens

Charitable giving is about far more than tax deductions—donors want to make a meaningful impact, align their giving with their values, and leave a legacy behind. Trust companies that can provide thoughtful guidance on the positive impact and tax efficiency of giving will help their clients achieve their philanthropic goals while strengthening the long-term relationship.

With the TCJA sunset on the horizon, now is the time for advisors to guide clients through the evolving charitable strategies. The SS&C Trust Suite empowers trust firms with the tools to deliver proactive, data-driven advice in today's environment and in the years to come.

FOR MORE INFORMATION

For more information on how this seamlessly integrated offering can be configured to the unique needs of your business, contact us at (800) 727-0605 or info@sscinc.com.

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2. Walker, David I., "Donor Advised Funds in the Wake of the Tax Cuts and Jobs Act," Columbia Journal of Tax Law, 2023.
3. "What Is a Donor-Advised Fund (DAF)?" National Philanthropic Trust, July 7, 2023.
4. "Higher Ed Charitable Giving Up by Double Digits," Insider Higher Ed, 14 February 2023.
5. CFI Team. "What is an Endowment Fund?" Corporate Finance Institute, June 28, 2023.
6. "Charitable Lead Trust," Legal Information Institute, Cornell Law School, July 7, 2023.
7. Ibid.
8. "What are the Different Types of Charitable Trusts?" Thrivent, February 9, 2023.
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10. "Charitable Remainder Trusts." Internal Revenue Service, August 26, 2024.