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Talk to your tax clients now about charitable giving

By Ken Nopar

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This tax season, perhaps more so than in the typical year, many CPAs are having conversations with their clients about their recent and future charitable-giving plans. The passage of the tax overhaul bill prompted many leading publications, including the *New York Times* (https://www.nytimes.com/2017/12/20/your-money/tax-plan-donations-charities.html), the *Wall Street Journal* (https://www.wsj.com/articles/how-the-tax-bill-changes-the-math-on-donor-advised-funds-1513793505), and *USA Today* (https://www.usatoday.com/story/money/personalfinance/2017/12/22/powell-tax-saving-steps-taxpayers-can-take-2017/946526001/) to publish stories about how to donate, when to donate, and how much to donate, causing many clients to rethink their strategy or methods.

Yet not all clients are savvy about the most effective ways to give to charity. What's more, while some consult their financial professional before giving, others make plans and give without guidance. When they lack the input that a CPA can provide, clients can end up giving to charity in ways that aren't tax-efficient. To make sure that your clients — and the organizations they care about — get the optimal benefit from their donations, you may want to proactively engage them in conversations about charitable giving. These conversations can help you learn more about your clients' goals and foster a deeper relationship (https://www.journalofaccountancy.com/issues/2018/feb/charitable-planning-cpa-services.html) with them.

Tax season can be the ideal time to introduce the topic of charitable giving. During tax season, clients are receptive to understanding the benefits of giving and are more likely to recognize how simple changes can result in more of their wealth being directed to charity instead of to the IRS. Though you may not have time for a lengthy discussion about charitable giving during tax season, you can still bring up the subject with clients and establish a time to have a more detailed conversation later. (Be sure to avoid waiting until November or December, however.)

Reviewing a tax return can also provide an opportunity to open a conversation. When reviewing the previous-year tax information that clients provide at this time of year, you may come across signs that clients need you to provide proactive guidance. Some indications are:

- Clients continue to write checks or use credit cards to make most of their donations, including substantial ones, even though they had other assets they could have donated that would have been more tax-efficient.
- Clients must pay significant capital gains taxes that could have been lessened or avoided had they donated certain assets to charity.
- Clients are getting ready to sell a business, real estate, or other appreciated asset and may wish to donate some or all of it to avoid or lessen taxes.
- Clients' deduction amounts for last year are close to the new 2018 standard deduction amount. If that is the case, they may want to use the "bunching" (https://www.nytimes.com/2017/12/20/your-money/tax-plan-donations-charities.html) strategy for their giving: making two (or more) years' worth of charitable contributions in one year so they can itemize their deductions in that year, and then significantly reducing their donation in the following year so that they can take the standard deduction. Clients who make "bunched" gifts to a donor-advised fund (DAF) account can make grants from their account to charities in equal amounts annually, even in years when they choose to take the standard deduction.
- Clients feel burdened by responsibilities or are not pleased with the costs of running a private foundation and seek a simpler solution or resources to help them.
- Clients continue to give but are not engaged, do not feel a sense of satisfaction and pride, or question whether they are having an impact.
- Clients are generous with their donations, but do not have a spouse or heirs to continue their giving, or have not included philanthropy in their estate plan.
- Clients can't provide you with the necessary information you need to prepare returns or can't find tax receipt letters from the Sec. 501(c)(3) organizations to which they donated, resulting in delay and much frustration — for them and for you.

Help clients develop a charitable-giving strategy

Sometimes, clients give to charity in a relatively disorganized fashion. They may not realize that the vehicle through which they give matters. CPAs can help clients make sense of the various options available and choose the ones that are right for them. For instance, it makes sense for some donors to donate directly to their favorite charities, while others would be better served by using a DAF, private foundation, or other charitable vehicle. DAFs, in particular, have recently grown in popularity:

The number of individual DAFs grew 6.9% in 2016 (https://www.nptrust.org/daf-report/recent-growth.html), to more than 284,000.

Having this conversation with clients, and possibly their heirs, can benefit both you and your practice. It can help to deepen your relationship with your clients and their children and potentially lead them to come to you with more of their financial concerns.

Though the new tax law's increased standard deduction may dampen giving among small donors, many experts envision that 2018 will be another busy year for charitable giving among wealthy clients as the need for donations and the generous spirit of donors remain strong and the amount of appreciated assets still exists. The tax law changes may also encourage some donors to change their method of giving and increase the amount they donate. Charitably minded clients, and even those who may not have made significant donations previously but now have the ability to do so, will appreciate your interest and advice.

For more information on charitable planning, see Chapter 5 of Volume 1 of The Adviser's Guide to Financial and Estate Planning (https://www.aicpa.org/content/dam/aicpa/interestareas/resources/estateplanning/downloadabledocuments/fepg-volume1.pdf).

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