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# Tax-Advantaged Giving

Guest Post: [Horizons Stewardship](#)

The program year is already in full swing, and soon enough, you will be wrapping up another year of ministry. Now is the time to consider how you will engage your donors during this important giving season by encouraging tax-advantaged giving.

It is true that reducing tax liability is not a primary motivator for giving. However, today's donors are savvy about leveraging their contributions to take advantage of tax deductions. **Promoting tax-advantaged giving can help your donors maximize their gift to your church and provide substantial year-end funding for your important ministries.**

## What are some of the primary ways donors can leverage their gifts and avoid unnecessary taxation?

### DONOR-ADVISED FUNDS

Donor-Advised Funds (DAFs) have grown in popularity and provide a tax-advantaged way for your members to contribute. A DAF allows donors to make irrevocable contributions to their fund and deduct it from taxable income in the year in which the donation was made. Many financial institutions, community foundations, and denomination foundations can be used to set up a DAF. The DAF is invested in the market, and the interest and income are non-taxable. The donor may continue to contribute to the DAF and recommend grants, or distributions, from the fund at any time.

Grants, or distributions, may be made to any organization that is classified by the IRS as a tax-exempt charitable organization. The number of DAF accounts in the United States now exceeds one million. In 2020, grants from DAFs increased 27% over 2019, representing the highest growth rate in the past ten years. In 2020, grants from DAFs totaled almost \$35 billion.

With the exponential increase in the number of DAFs, it is highly likely you have DAFs account holders in your church. Donor-Advised Fund holders are often unclear about their ability to fulfill a pledge to your church through a DAF grant. While grants from a DAF cannot be used to fulfill a “contractual obligation or pledge” or pay for things like tickets to a charitable event, church pledges are almost always nonbinding and, therefore, may be fulfilled using a DAF. Using terms such as “estimate of giving” or “giving intention” rather than “pledge” or “commitment” can provide clarity and resolve any potential confusion.

Remember, all funds deposited into a DAF must be given to charity. Donor-Advised Funds must either be passed on to other advisors upon the fund holder's death or given to a nonprofit beneficiary. Becoming the beneficiary of a member's DAF is another way for the church to diversify revenue streams and support annual ministry.

Donor-Advised Fund account holders have chosen to prioritize philanthropy. Many have accumulated significant resources that can only be used to support a charitable cause. Knowing your DAF account holders and their philanthropic passions provides an opportunity to build relationships and engage them in meaningful ways.

### IRA REQUIRED MINIMUM DISTRIBUTION

The rules around Required Minimum Distribution (RMD) have shifted, but the benefits of contributing to the church directly from an IRA remain intact. The RMD is the amount required by the IRS to be distributed annually from an IRA, 401(k), or other retirement plans by those who are 72 years of age or older. It is important to note that the 2019 tax laws changed the previous starting age of 70 ½. People who turned 70 ½ in 2019 or before had to begin taking their RMD in 2019.

Using some or all of the RMD to give to the church is a tax-advantaged way to contribute. By donating directly to the church from the IRA or 401(k), the donor may reduce his/her tax liability. A total of \$100,000 per year can be transferred from an IRA directly to a charity without creating a taxable event.

Donors who have inherited an IRA from someone other than their spouse must liquidate the IRA within ten years of inheritance. Liquidating an IRA creates a taxable event usually subject to ordinary income and subject to state income taxes. Therefore, a gift to the church directly from this type of IRA can provide a win/win opportunity for the donor and your church.

An increasing number of church members are discovering the benefits of contributing to the church directly from their retirement accounts and the financial advantages of this form of giving. Your donors will thank you for helping educate them on these powerful tax benefits.

### STOCK GIFTS

Gifts of appreciated assets have long been an important way for donors to make tax-advantaged contributions to the church. To avoid capital gains tax, gifts of appreciated assets must have been held by the donor for at least one year and must be given directly to the church. For purposes of tax deduction, the donor receives credit for the value of the stock on the day the transfer is complete. Remind your donors about your ability to accept this form of donation and make the transaction as simple and transparent as possible. The stock market may be down from its high in early 2022, but most investors have seen incredible gains over the last ten years on which they now face capital gains taxation.

As the fall season approaches, donors will be making plans for their year-end contributions. Be sure to remind donors about all the ways in which they can continue to provide support to your ongoing ministries through tax-advantaged giving. Encouraging your donors to lessen their tax liability and increase their support for your church provides a winning combination.

Horizons is here to help. If you have questions or need a conversation partner, please visit [horizons.net](https://horizons.net) and let us know how we can help.

## For Further Reading:

[Loveless Giving](#)

[5 Keys to Developing Good Money Habits](#)

[Why Do Christians Experience Financial Hardships?](#)

[7 Ways Churches Can Prepare Financially for Rough Waters](#)

[The Leading Cause and the Remedy for Apathy in the Church](#)

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