



3 BIG Retirement Tax Mistakes

How you can easily avoid them and
keep more of your money!

You made it!

You've worked. You've saved. You've made smart decisions. Now's the time to optimize what you've built and avoid mistakes.

If you're reading this, it's likely you're already retired or close to it. Which means for many years you've invested your time, energy, talents (and maybe some blood, sweat and tears) into reaching a point of having more control of how you spend your time. You have saved and grown your wealth to a point where work has become optional- an incredible achievement!

Moving from the earning and saving phase of your life to enjoying your success in retirement is a major shift. You're now spending your income rather than saving and withdrawing from investments rather than contributing. These changes to your financial life mean that there is much less margin for error. In our working years, we have so much time to recover from mistakes, misfortune and forces out of our control. In retirement, we don't have this luxury. We need to get it right, avoid big mistakes and not worry that we're missing out.

The 3 BIG Retirement Tax Mistakes

Income tax is often one of the largest expenses for retirees, especially those with significant assets and higher income. Finding ways to pay less tax over your life is one of the best ways to preserve your wealth and enjoy your hard-earned money the way you want.

Retirees have so many opportunities to pay less tax. Unfortunately, these strategies are often complicated, require time and effort to research and are based on a set of rules that are changing constantly. This makes it very easy to make mistakes and miss out on chances to maximize your wealth by paying less tax. Let's change that!

In this guide, you'll learn 3 common tax mistakes made by retirees which are:

Owning investments in the wrong account

Not maximizing low tax brackets

Missing out on tax benefits of charitable gifts

If you're at or near retirement, have investments and pay taxes, this guide was made for you. It's time for you to take control of your taxes so you can preserve and grow your wealth while living your ideal retirement. Let's dive in!

Start here!

You're going to be reading about taxes, IRS rules and strategies to pay less tax. Please keep in mind that the information contained in this guide is meant to be general and for educational purposes only. It is not meant to be tax, legal or investment advice.

Taxes are complicated and the rules are ever changing. Applying what you learn in this guide to your personal financial picture and goals before making any decisions is important. Please consider seeking advice from your tax and/or financial professional to help you decide which, if any, tax strategies are appropriate for you.



1 Owning investments in the wrong account

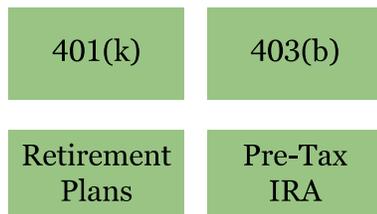
Different Accounts Mean Different Tax Treatment

Many retirees have saved for decades. Most set money aside in their company retirement plan. Some use Individual Retirement Accounts (IRAs) and others have used Roth or after-tax accounts to build their wealth. You may have a few of these accounts as you near retirement.

Each of these accounts offers tax benefits as you add money, while you own the account or when it comes time to make withdrawals. To optimize your retirement income and pay less income tax, it's important to understand how the investment accounts you own are impacted by taxes in retirement.

Let's explore three common investment account categories used by retirement savers.

Pre-Tax Accounts

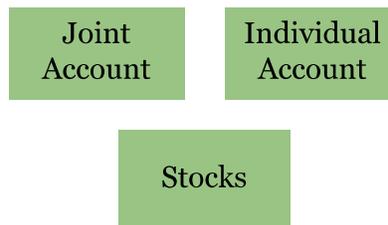


Pre-tax accounts are the most commonly used retirement account. When contributing money to these accounts, you received a tax benefit by not paying federal income tax on the money you added.

As the account grows, you don't pay tax on the growth, dividends or interest earned in the account each year.

Income tax is owed when you make withdraws from the account.

After-Tax Accounts

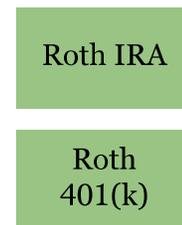


After-tax accounts are usually owned by you individually or jointly with your spouse.

Tax is owed on the dividends and interest earned in the account each year. You will also owe tax on the gains when you sell investments for more than the purchase price.

This means that your after-tax accounts likely have an impact on your tax return each year not just when you make withdrawals.

Roth Accounts



Roth accounts are funded by money that has already been taxed. As long as the Roth rules are followed, the growth of the account and future withdrawals are income tax-free.

The basic rules are that you can't take a tax deduction for your contributions, you must be at least age 59 1/2 when withdrawing, and it must be at least 5 years since your first Roth contribution.

Common mistakes when owning multiple account types

When a retiree owns two or more of these accounts, it's important to consider a few important factors when managing and making decisions about each account like:

- The tax implications of each account
- The timing of when you may take money from each account
- The investment strategy and risk appropriate for each account

Without taking these factors into account, it's easy to make some of the most common mistakes and miss out on opportunities along the way.

5 Common mistakes to avoid when owning multiple account types

#1- Investing all accounts the same way

Many investors have each of their accounts (IRAs, 401(k), joint, Roth, etc.) invested the same way. Each may have the same funds, similar investment mix and level of risk. While aligning your accounts this way can be simple and easy (there is something to be said for that!), you may have a few good reasons to invest your accounts differently.

Investing your accounts differently can help align the investments with the tax structure. For example, the tax implications for a Roth IRA and pre-tax IRA are quite different. The same goes for a joint account and 401(k) plan. Some accounts cause tax each year, some when you withdraw and others never lead to tax. With such a difference in tax implications, it makes sense to invest each in a way that is coordinated with the tax rules for the account so you can keep more of your money.

#2- Too much taxable income in after-tax accounts

Typically, you must pay tax on the dividends, interest and capital gains earned in your individual and joint accounts each year. This means the investments in the account impact your tax return each year.

When this isn't taken into consideration, the account could be invested in a way that generates more taxable income. This additional investment income could impact your Medicare Part B premium (IRMAA) and how much of your Social Security benefit is taxable. Could you own these higher income investments in an account where you can avoid paying tax on the income each year like a pre-tax or Roth IRA?

#3- Pre-tax accounts invested too aggressively

When you take money out of your pre-tax IRAs and retirement plans, you will likely owe income tax. Since you must share the growth via taxes, it might make sense for your pre-tax accounts to be invested more conservatively than your Roth and after-tax accounts. This could mean more growth in these "tax-efficient" accounts over time where you can keep more of the gains.

Optimizing the investment strategy in your pre-tax accounts can pay off even more for retirees who will have large Required Minimum Distributions (RMDs). The more growth in your pre-tax accounts, the larger the amount you must withdraw and pay income tax on each year after reaching your RMD start age (72-75).

Retirees required to withdraw and pay tax on more money than they need to cover their spending could be better off "shifting" some of their investments with more growth potential to their Roth IRAs and after-tax accounts to help avoid unnecessary withdrawals and more tax.

#4- Roth accounts invested too conservatively

Your Roth accounts could be your most valuable money in retirement. If you follow the Roth rules, you may avoid paying tax on your original investment and the growth when you make withdrawals.

This could mean that investing your Roth IRA more aggressively might make sense. If you have a long time before using the account, aligning the account for more potential tax-free gains could help you grow this valuable asset.

#5- Taking money from the wrong account at the wrong time

We know that each of these account types are taxed differently. Generally, these tax rules are consistent and don't change often. What does change, especially as you transition to retirement, is your income and tax situation. As your work income ends, other income could be starting like:

- Pensions
- Social Security
- Required Minimum Distributions (RMDs)

Your tax picture could be quite dynamic in the first 5-10 years of retirement. During this time, and throughout retirement, it's important to be strategic with which accounts you're pulling money from each year. In a lower tax bracket right now? It might make sense to withdraw from your IRA and pay less tax. Need a larger lump sum of money? A tax-free withdraw from your Roth might be the best way to go. Retiring before Medicare and buying a plan on the healthcare marketplace? You could qualify for lower premiums by keeping your income low so Roth or after-tax account withdrawals may be best.

While it may be easy and simple to withdraw from the same accounts each year, you may be missing out on opportunities to pay less tax and keep more money as your financial life changes in retirement.

Key Takeaways

-  If you have more than just one account type (pre-tax, Roth and after-tax), you should consider whether each of them should be invested according to their tax rules
-  You might have good reason to hold more of your bonds, money markets and other fixed income investments in your pre-tax accounts. This could shield you from paying income tax on the interest each year. If you won't need all of your Required Minimum Distributions for spending, more fixed income investments in your pre-tax accounts could help your RMDs be lower over time as the account may not grow as much.
-  Consider whether your Roth accounts should hold more of your stocks and higher growth investments. The growth and eventual withdraws from Roths are usually tax-free. This means these accounts could be the best place to hold your high-upside investments.
-  You pay tax each year on the dividends, interest and realized capital gains in your after-tax accounts. You may be better off owning investments that don't produce taxable income in your after-tax accounts such as low-dividend equity ETFs, individual stocks, municipal bonds, etc.

2 Not making the most of low tax brackets

Often, it is assumed that in retirement, taxes will go down since there is no more income from work. For many retirees, that is exactly what happens but it is far from universally true. Many retirees see their tax rate change over time and often fall into 1 of 3 categories when it comes to their income tax rate and bracket.

Category #1 - Same tax rate throughout retirement

Many people will remain in the same tax bracket or have a very consistent tax rate throughout their retirement. This is especially true if most of your income is “fixed” such as pensions and Social Security. Unless there is a major change to your taxable income or tax deductions, its likely that their tax rate will stay within a small range.

Category #2 - Decreasing tax rate in retirement

Some retirees will experience a drop in their tax rate over time. This is less common but can be true for those who retire and then do other income-producing work like consulting or opening a business. Once this income ends, the tax rate could go down. If withdraws are taken from an IRA or other pre-tax retirement plan early in retirement, tax rates could be higher until those withdraws end.

Tax rates could also go down in retirement if tax deductions increase. This may be the case if the retiree chooses to make greater charitable gifts. Purchasing a new home with a mortgage, while uncommon in retirement, could mean more deductible mortgage interest. Eventually, if health care costs go up significantly, there could be a meaningful health care cost deduction which could lower the retiree’s tax rate.

Category #3 - Increasing tax rate in retirement

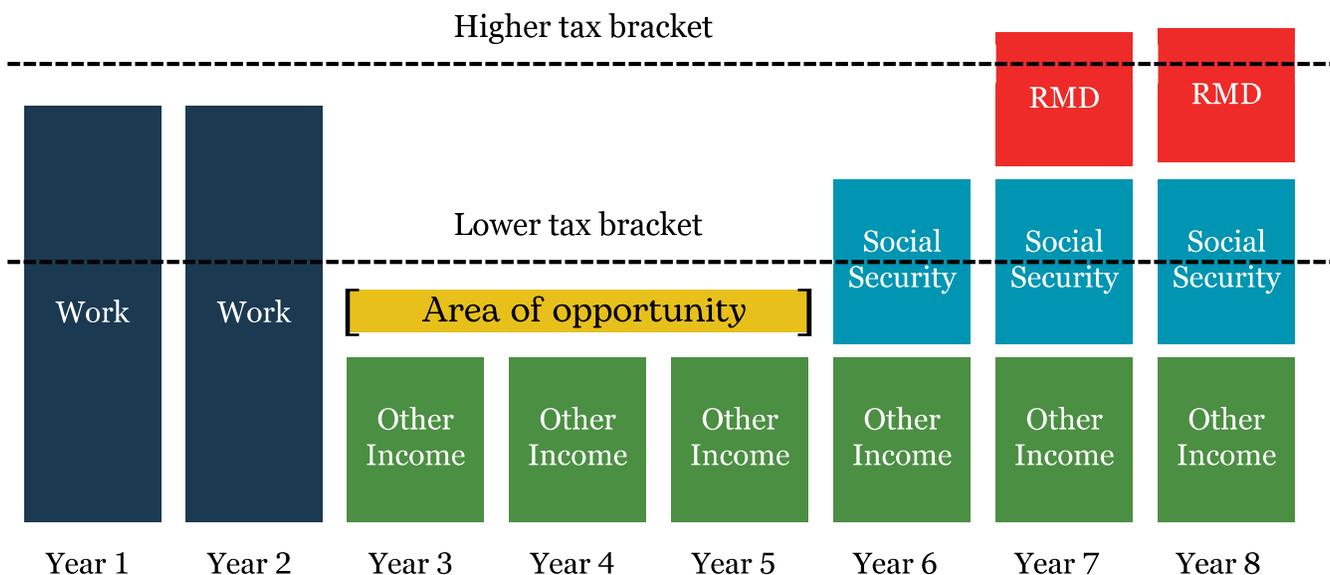
Often, retirees can see their income tax rate go up. There are a few ways this can happen:

- When Social Security benefits begin.
- When Required Minimum Distributions begin at age 73 or 75. This is especially important for retirees with large balances in IRAs or other pre-tax retirement accounts who could have significant annual taxable withdraws.
- When a spouse passes away. Moving from Married Filing Joint to Single after a spouse dies can cause the survivor to have more income fall into higher tax brackets.

We will focus on this group of retirees in this section as there are often powerful planning opportunities available to those who are forward-thinking and realize they have a lower tax rate today than in the future.

The key to taking advantage of relatively low tax rates is first knowing when you have a relatively low tax rate! You can’t be strategic if you don’t know whether it applies to you. Looking down the road further into retirement and exploring how you expect your income to change is the best place to start.

Let’s use a simple example of how a soon-to-be retiree can find themselves with a relatively low tax rate compared to the tax rate they could have in the future.



Most retirees experience some form of income and tax rate drop immediately after retirement. How much and for how long is unique to each person and their income situation. Eventually, the beginning of Social Security benefits and Required Minimum Distributions (RMDs) could push the tax bracket back up to or higher than the tax bracket during working years.

For some people, this can create a period of time between work ending and Social Security and RMDs starting called the “Area of Opportunity”. This is a time period when we know with certainty our current tax rate is lower than it will be in the future. For some retirees, the Area of Opportunity may last only a year or two. For others, it could last much longer. Either way, its important to identify whether you will have this period of time where your tax rate will never be lower so you can use it to your advantage.

How can I take advantage of low tax rates in early retirement?

For those who find themselves with years of lower tax rates or strategically design them to be so, the big question is- **How can I capitalize on these low rates?** We have a number of years where we have an advantageous tax situation. How can we use it wisely with the goal of paying as little tax as possible over our life?

To the astute retiree, there are 3 ways to take advantage of these years and possibly pay less tax. Let’s walk through each strategy and how it could make sense for you.

#1 - Withdraw from pre-tax retirement accounts

If you find yourself in a lower tax bracket than you will be in the future, it could be a great time to make withdrawals from your pre-tax retirement accounts to fund your expenses. The money you take out of pre-tax 401(k)s, IRAs, 403(b)s and other retirement plans is taxable at your income tax rate. So, it pays to be strategic when making withdrawals to help you pay less tax. Let’s look at an example of how this could work.

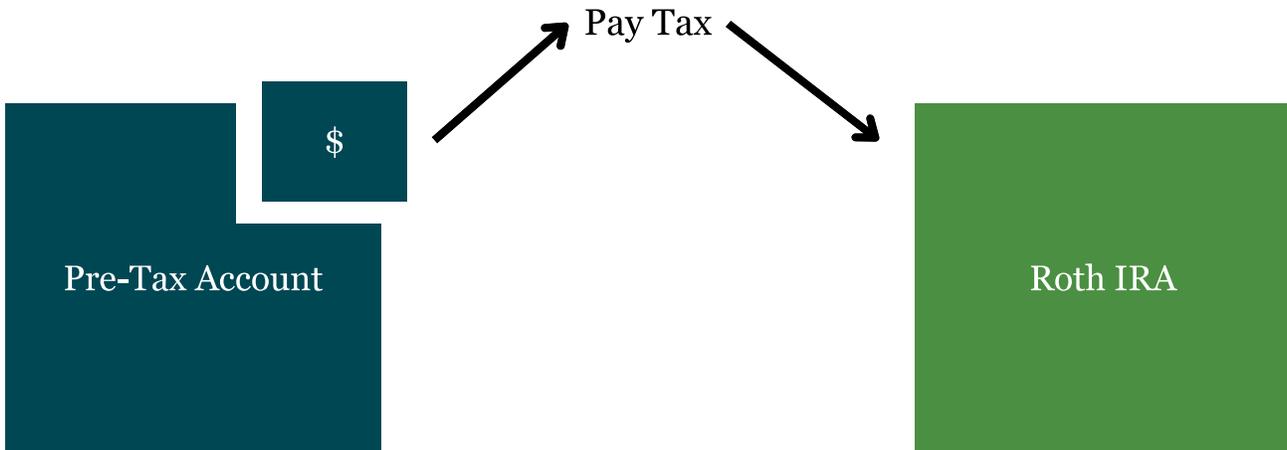
Cathy is recently retired. Right now, she has a small pension but no other income so she would be on the low end of the 12% tax bracket. Once she begins Social Security in 5 years and Required Minimum Distributions from her pre-tax IRA in a few more years, she expects to be in the 22% tax bracket. Her income rate is likely to go up later in retirement.

This means Cathy has an opportunity for the next 5 years or so to make withdraws from her IRA while in the 12% tax bracket. If she withdraws just enough to reach the top of this bracket, she will be paying significantly less tax on this money than she would be in the future when she is required to take money out and pay a higher tax rate.

#2 - Convert pre-tax accounts to Roth

Another way to take advantage of a low tax rate today is to convert some pre-tax retirement funds to Roth IRAs. Before we dive into this strategy, let's walk through how this works and clarify the details.

Converting pre-tax money to Roth means you are making a withdraw from an IRA, 401(k), or other retirement plan, choosing to pay tax on that money right now and depositing it into a Roth IRA. The benefits of the Roth IRA are that the principal and growth in the account can later be withdrawn tax-free as long as the account has been opened for 5 years since it was initially funded.



A Roth conversion means choosing to pay tax now. Rather than allowing the funds to stay in the pre-tax account, grow and potentially be withdrawn at a higher tax rate, the choice is made to pay tax now at a lower rate. The money then has the opportunity to grow and be withdrawn in the future tax-free.

It's important to consider how long the money will be invested in the Roth IRA before you may use it. Remember, you're paying tax on the amount you convert so you need time for the money to grow enough to at least make up for the tax cost. For example, if the Roth conversion costs you \$2,000 in income tax, you'll want the Roth account to grow by at least \$2,000 over time to "break even".

Often, the Roth makes a great inheritance tool as your beneficiaries can also enjoy the tax-free benefits of the Roth IRA once it is inherited. Viewed from the perspective of money for the next generation, it can allow you to invest the funds with a long-term perspective and investment strategy.

While considering whether this strategy makes sense for you, keep in mind that causing more income to be taxed now could impact a few areas of your financial life like:

- How much of your Social Security benefit is taxable (if you are taking your benefit)
- Your Medicare Part B and Part D premium
- Income-based health insurance premium credits

Careful planning and coordination with your tax professional and financial planner are important to help you understand the implications of a Roth conversion and avoid tax mistakes.

#3 - Avoiding capital gains tax in the 12% tax bracket

Aside from pre-tax retirement accounts and Roth IRAs, you may also have investments you own individually or jointly with your spouse outside of retirement accounts. These may be stocks, bonds, mutual funds or other investments held in a brokerage account or held directly with the issuer. These investments are taxed differently than retirement accounts and its important to understand those differences.

These investments are taxed in 3 ways:

- Taxable interest
- Taxable dividends
- Capital gains

Let's start with interest and dividends. If the investments you own in non-retirement accounts pay out dividends or interest, these are usually taxable unless the investments pay out tax-free interest. Whether you reinvest the dividends and interest or withdraw it, the income will be taxable to you in the year it is paid.

Tax on capital gains is a little more complicated and where the tax planning opportunity exists. Capital gains tax is due when you sell an investment for a higher price than which you bought it. Let's look at an example.



If you bought ABC Stock for \$100/share and sold it over 1 year later for \$200/share, you would have capital gains of \$100. This means capital gains tax is owed on those gains. As of 2025, those gains are taxed at a rate that depends on your level of taxable income that year. The figures below are based on Married Filing Jointly tax filing status.

- Taxable income over \$600,050 = 20% gains tax
- Taxable income between \$96,700 - \$600,050 = 15% gains tax
- Taxable income below \$96,700 = 0% gains tax

If you have taxable income below \$96,700 (essentially the top of the 12% tax bracket) you pay no tax on capital gains. This is a great opportunity to sell investments that have grown in value and potentially pay no tax on those gains. The sale proceeds can be used to fund your spending or reinvested into other investment opportunities.

Keep in mind that capital gains tax is avoided on the gains that are below the taxable income threshold. If you sell enough to push you over that taxable income limit, you could owe gains tax on the amount over the limit.

Key Takeaways

-  Your tax rate may go down, stay the same or go up through retirement. The way your personal tax rate will evolve is important because it directly impacts which tax strategies make sense for you.
-  The only way you can take advantage of these strategies is to identify whether you are or will be in a lower tax bracket relative to the future.
-  Those whose tax rate will go up over time in retirement could have an “Area of Opportunity” where their current tax rate is much lower than their rate in the future (reference graph on Page 7).
-  It is important to identify your current tax bracket and the future bracket you expect to enter later in retirement. Knowing this will help you understand how many years you have within the lower brackets in order to put an appropriate plan together.
-  There are 3 ways to take advantage of lower tax brackets when they’re available to you:
 - Make withdraws from pre-tax retirement accounts to fund your living expenses
 - Convert a portion of your pre-tax accounts to a Roth IRA
 - Avoid capital gains tax when selling after-tax investments
-  Which strategy is best for you depends on many factors including:
 - The account types you own and how much money is in each
 - How much you need to withdraw from your collective account for living expenses
 - The length of time you will be in a relatively low tax bracket
 - You family legacy and inheritance goals
 - Your overall investment strategy
-  This area of planning can be complicated and the assistance of your tax preparer, CPA and/or financial planner is highly recommended.

3 Missing out on tax benefits of charitable gifts

Sharing your wealth is wonderful and you should reap the tax rewards.

If helping others through charitable giving is important, there are many ways to get your money to the organizations important to you. For charitably-minded retirees, the challenge arises when trying to get the most tax benefit from your giving. While never the only motivation, giving comes with tax advantages and you don't want to miss out.

Most retirees understand that they get some form of tax deduction from a charitable gift. However, this may not always be true and it's easy to get no tax benefit at all and not even know it!

Too many retirees miss out on receiving tax benefits for their donations. Fortunately, if you are willing to be intentional and strategic with your giving, you can maximize the tax benefits and keep more of your money in retirement. Let's learn how!

Something important to know before we get started

The majority of retirees donate to charity by writing checks or making cash gifts. Along with a few other methods, these types of contributions are considered itemized deductions on your tax return. We need to understand a little of what that means because it is really important to maximizing the tax benefits of your giving. Here are the basics

When you file your income tax return, you choose to take either the Standard Deduction or elect to Itemize your deductions. Everyone is eligible for the Standard Deduction. However, if your itemized deductions added together are more than the Standard Deduction, you would wisely choose to "Itemize" for the bigger tax deduction.

There are only a few expenses that count as Itemized Deductions:

- Medical expenses (over 7.5% of your Adjusted Gross Income)
- State Income Tax, State Sales Tax and Local Property Taxes (up to \$40,000 based on income)
- Mortgage interest
- Charitable gifts

In order to deduct these expenses, they must add up to more than the Standard Deduction. In 2025, the Standard Deduction for a retiree over age 65 is \$15,750. A couple filing jointly has a Standard Deduction of \$31,500. It's quite common for the Standard Deduction to be higher than the Itemized Deductions for many retirees. In this case, even though charitable donations were made, they don't provide a tax deduction that year.

This is an important dynamic to keep in mind as we move ahead to learn ways you can have as much of your giving provide a tax benefit as possible.

3 Strategies to Maximize Charitable Giving Tax Benefits

With a little forward-thinking and planning, you can avoid missing out on the tax rewards of your donations. Before diving in to these strategies, its important to keep in mind that these methods only make sense if you already plan to make charitable contributions. Donating simply for the tax benefits is not a sound strategy and never advisable.

#1- Donate securities that have gone up in value

Rather than donating cash, you can choose to donate investments. If the target charity has the capability to receive investments, you can transfer ownership directly from you to the organization. This counts as a charitable donation just like cash and could add to your Itemized Deductions for that tax year. To make this type of donation, the investment cannot be held in an IRA, Roth IRA or other type of retirement account. It must come from an individual, joint or other type of after-tax account.

Why would I donate investments rather than cash?

It may not make sense as to why you would give away investments which can continue growing in value rather than cash. Let's look at a simple example to show why this may be a great way for you to save tax in TWO ways at the same time!

You bought XYZ Stock at \$10 per share 10 years ago in your non-retirement account. It has done really well and is now worth \$50 per share. You've made \$40 in capital gains. What a great return!

If you sell XYZ stock, you would pay capital gains tax on the \$40 in gains at either 15% or 20%. There are scenarios where you could pay less capital gains tax but we'll keep it simple and assume 15% tax as it is most common. At a 15% tax rate, you would pay \$6 in tax per share you sell. Let's say you own 100 shares. If you sold them all, you would owe \$600 in tax.



Suppose you want to make a \$5,000 charitable gift. You could donate that amount in cash and have it count as an Itemized Deduction. But what if we donated all 100 shares of the XYZ stock instead?

If we do that, not only do you get the same \$5,000 Itemized Deduction, you also get to remove the \$4,000 in capital gains (100 shares x \$40 in gains per share) from your investment portfolio. The charity inherits the gains and can sell the shares without paying capital gains tax as a 501(c)(3) organization. So, no one pays the capital gains tax!

This sounds great but what if we took it a step further? Let's say you want to keep owning XYZ Stock but you just gave away all of your 100 shares? Well, you could take the \$5,000 in cash you would have otherwise donated and rebuy 100 shares of XYZ Stock at today's price of \$50.

So, you end up getting an Itemized Deduction for the donation and still owning the stock. All of the taxable gains have now been shifted to the charity who won't pay tax on them. You still end up owning 100 shares and have \$5,000 invested in the stock, just as before. You win and the charity wins. It doesn't get better than that!

#2- Donating from retirement accounts via RMDs

During work years, most savings is done through retirement accounts such as IRAs, 401(k)s and other retirement plans. The majority of these accounts are considered “pre-tax” which means contributions to the accounts were a deduction from income and income tax must be paid when money is taken out.

At age 73 or 75 (depending on your birth year), the IRS will force you to withdraw and pay tax on a certain amount from your pre-tax retirement accounts each year. These mandatory withdrawals are called Required Minimum Distributions (RMDs) and are required whether you need to withdraw money or not. Either way, the IRS is ready for you to pay tax on your retirement savings!

The IRS allows charitable contributions to be made directly from your RMD. This is a great opportunity for retirees who take the standard deduction to get some tax benefit from their giving. Let’s take a look at an example and then dive into the rules and specifics.

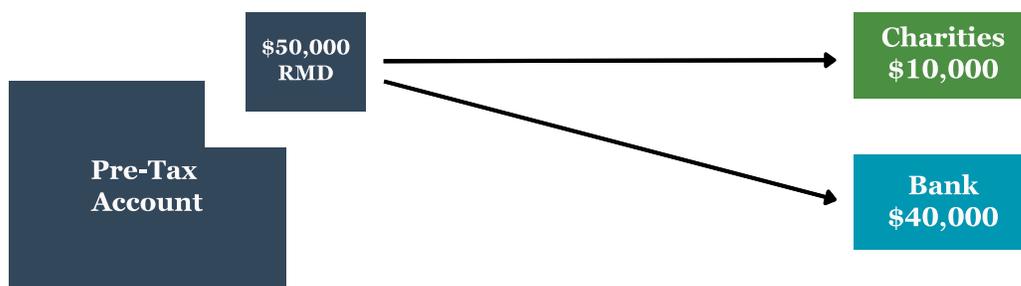
Example: Dave & Shelly

Dave and Shelly are turning 73 this year and must begin taking Required Minimum Distributions. In total, they must take \$50,000 in RMDs. They donate \$10,000 per year to various charities and plan to continue doing so. Unfortunately, they don’t get a tax benefit from this giving because they don’t itemize their deductions.

They know that this \$50,000 distribution will be additional income on their tax return this year. If they shift how they do their charitable giving, they can minimize how much of their RMD is taxable and pay less income tax overall. In the past, Dave and Shelly, like many people, wrote checks to charities for their giving.



Now that they are taking RMDs, they can use a strategy called Qualified Charitable Distributions (QCDs) to make their gifts instead. By making this shift, they will give directly from their retirement account rather than writing checks. The amount gifted will go straight to the charitable organization and not need to be reported as income on their tax return. The rest will go to them and be reported and taxed as income.



The result is Dave and Shelly give the same amount of money to charities. However, this \$10,000 is now excluded from their tax return. If their tax rate was 20%, this could be \$2,000 in tax savings on donations they were making anyway and receiving no tax benefit due to taking the standard deduction.

If you’re already making donations and taking RMDs, making the donations from your required withdrawals could be a great tax-savings strategy.

#3- “Pre-Give” in high income years to save tax

If you experience one or more years where your taxable income is significantly higher than normal, you have a great opportunity to be strategic with your giving to save tax.

Before diving in to this strategy, let’s imagine your giving as a lever we can pull when we want. Most people pull it every year and give around the same amount consistently. This works just fine when your income and tax picture are relatively stable year-to-year. When our income is not stable and we have a period of time where we’re in a higher tax bracket, it may make sense to pull the lever extra hard in those years simply for the tax benefits.

This doesn’t mean that the amount you end up giving has to change or that you have to give more money to charity. The best part is you can give the exact same amount but save more in taxes by being strategic with when you give.

What are “high income” years?

For this strategy to be effective and worth the effort, you need to experience years of meaningfully higher income. While “higher” is relative, the following life events are often triggers to consider being strategic with the timing of your charitable giving:

- Selling a business
- Selling real estate with capital gains
- Years of higher income right before retirement
- Years of higher business income
- Receiving an inheritance with major tax implications
- Any significant short-term increase in income

The theme here is we plan to or are already experiencing a time period of higher income relative to what we expect in the future. In these years, it’s worthwhile to consider making more donations to help offset this temporary increase in income and taxes.

While making more direct donations in high income years is an option, what if you could get the tax deduction for the donations now and figure out the giving part later?

How can I have the tax deduction now and get the money to the charity later?

One common problem with making significantly higher donations in a short period of time is figuring out which organizations to give to and when. Will this cause problems for the organizations’ budgeting? It may not feel right to give so much all at once. Luckily, there is a solution to this problem- the Donor Advised Fund (DAF). A tool to help make large donations now, get the tax deduction now and give to your preferred charities at your leisure

How can I get the tax deduction now and give later with a Donor Advised Fund?

Let’s start by making sure we understand how a Donor-Advised Fund works. A DAF is an account set up and maintained by a charitable organization. Some popular Donor-Advised Funds are offered by the National Philanthropic Trust, Vanguard Charitable and Fidelity Charitable and many more.

Individuals can set up their own account with a DAF where they get an account number, online access and investment options just like a normal investment account. Rather than sending donations to charities directly, you make a contribution to the DAF. You get an immediate tax deduction (itemized deduction) for the whole amount contributed because it is considered a charitable gift.

When you’re ready to send funds from your DAF to a charity, you recommend a “grant”. The DAF then sends the recommended amount to the charity of your choice. The best part is, grants can be made whenever you want. You have total flexibility as when the money is sent to the charities you choose.

A simple example of “lumping” giving with a Donor-Advised Fund

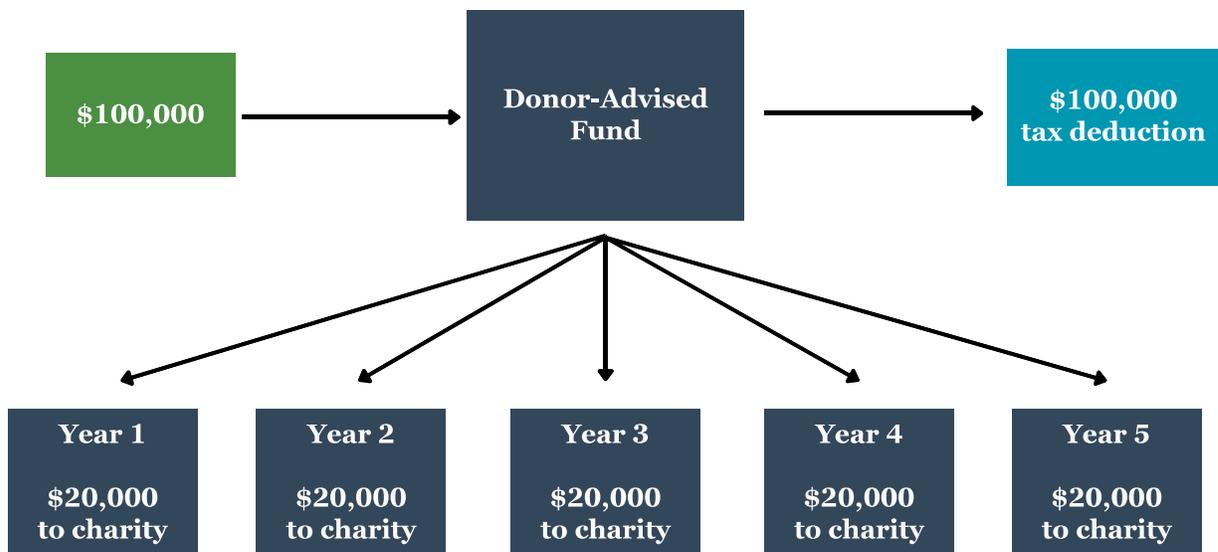
Tom is selling his business this year for \$5 million. His CPA expects his tax bill to be \$1 million. This is easily the largest tax bill he will ever pay. After this year, he'll never be in the top tax bracket again.

He and his wife give \$20,000 per year to charities and want to continue doing so. Rather than simply giving \$20,000 this year and going forward, they could do the following to maximize tax savings this year.

They could open a Donor-Advised Fund of their choosing. Once opened, they can work with their CPA and financial planner to decide how much to donate this year. They may decide to contribute five years of planned giving this year which is \$100,000.

Once the business sale goes through, they take \$100,000 from the cash proceeds and contribute it to their DAF. They get an immediate \$100,000 itemized deduction for a charitable contribution this year, when they need it most.

Now that the funds are in the DAF and the tax deduction is received, they can give from the DAF as they wish. Their plan is to give \$20,000 per year from the DAF to the same charities they normally would for five years. This allows them to give the same amount to the same organizations but focus the tax benefits in one year where they will save the most tax possible.



The immediate tax savings and flexibility make the Donor-Advised Fund a great way to pay less tax in years when you're in a higher tax bracket.

While Donor-Advised Funds are relatively simple, there is a lot to consider before deciding if it's right for you. The [National Philanthropic Trust](#) is a great resource and place to begin exploring how DAFs work and whether it is an advantageous way to make your charitable gifts.

Key Takeaways

-  Many charitable retirees receive little to no tax benefits for their giving. This is mainly due to the increase in the standard deduction via the Tax Cuts and Jobs Act in 2017.
-  Giving cash is the most common method of giving. However, gifting stocks, ETFs, mutual funds and other investments that have grown significantly in value could be a better way for you to give. This strategy allows you to give away a taxable asset to the charity who can sell it and avoid paying capital gains tax.
-  If its an investment you still want to own, you can use the cash you would have donated to rebuy it at today's price. You get the investment, the taxable gains have gone to the charity who won't pay the tax either.

Once you reach age 73 or 75, you will be required to withdraw a certain amount from your pre-tax retirement accounts. You will have to report this withdraw as income each year and pay tax on it. By using a Qualified Charitable Distribution (QCD), you can send all or a portion of this taxable withdraw to qualified charities. The amount you send will not be reported as taxable income.

-  If you experience a year of significantly higher income and taxes, you may want to consider “lumping” charitable giving into that year to help offset income which may be taxed at a higher rate.
-  You can certainly make this simple and give more in that year for a greater deduction. Some people may not be comfortable with that. An alternative is to use a Donor-Advised Fund. This strategy allows you to make a larger contribution to the fund and take the charitable deduction that year, when you need it. Then, you can “grant” money at your discretion to your desired charities. You can do this over as many years as you would like to mirror giving you had planned to do in the future.

Ready to pay less tax and keep more of your money?

You don't have to figure it out on your own! Book a 60-Minute Strategy Session to uncover opportunities and answer your big tax questions like:

- Are my investments optimized and tax-efficient?
- Can I strategically lower my tax bracket?
- How might my tax bracket change over time?
- What can I do to avoid higher Medicare premiums?
- Can I get more tax benefit from my charitable giving?
- How can I benefit my family while minimizing taxes?

Get confidence and clarity that you're maximizing your wealth!

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