

PERSPECTIVE ON YEAR-END TAX PLANNING AND CHARITABLE GIVING PRIORITIES

A Conversation With Senior Director of Family Office Financial Planning Francis Sennott

This month, we asked Senior Director of Family Office Financial Planning Frank Sennott for advice on managing required minimum distributions, leveraging qualified charitable distributions, what tax-law changes might mean for your gifting strategy, and how to prioritize before time runs out in 2026.

As we approach year-end, what are some of the most important financial planning items people should be thinking about?

Year-end is always a good time for people to take stock of their financial plan and think about their big-picture goals.

In terms of specific year-end items they should concentrate on, I think about required minimum distributions (RMDs). Do I need to take more money out of my retirement accounts before the end of the year? What should the withholding be on those?

Charitable gifts are another big consideration. If someone is taking RMDS, there's the opportunity to do qualified charitable distributions (QCDs) if they still have year-end charitable gifts they'd like to make. That's a great planning tool and very tax-efficient.

People should also think about gifts to family members. Do I want to be making gifts to children? Am I going to make gifts outright or in trust? Do I already have those trusts set up if that's the way I'm going to do it?

And then there's income tax planning. Make sure your withholding and estimated payments are adequate so you don't find yourself under-withheld and facing a penalty, or over-withheld and needlessly giving the government the use of your money.

Finally, take a look at your retirement plan contributions. Are you on track to maximize your 401(k)? If not, is there room to increase contributions before year-end? And if you're looking at your year-end numbers and think you're going to be in a lower tax bracket than usual, that can create an opportunity to consider a Roth conversion.

What are some of the opportunities people are most likely to miss if they wait until December?

One of the very common charitable-giving techniques we use is making gifts of appreciated securities to a donor-advised fund.

If it's the first time someone is doing that, they shouldn't wait until December. It can take time, particularly with the year-end rush, to set up a donor-advised fund, and it takes additional time to move appreciated assets in kind from a brokerage account into the fund.

That's a big one because a lot of people do make year-end charitable gifts.

Another issue people frequently overlook involves gifts to family members. Most people know that if they make a charitable gift by check and put it in the mail, the gift is generally deemed to be made on the date the envelope is postmarked.

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What they don't always appreciate is that gifts to family members work differently. The gift isn't effective because you wrote the check or handed it over. The gift doesn't become effective until the recipient deposits or cashes the check.

So if you give somebody a gift on Dec. 31 and it doesn't get deposited until February, that's a gift in the following year, not the year you wrote the check. People are often surprised by that.

I also encourage people to look at where they fall in the tax brackets. If I look at my taxes and figure out I'm only in a 22% or 24% tax bracket this year, is there an opportunity to do a Roth conversion before year-end? That's a taxable event, but if you can do it at a lower tax rate, it can be very attractive because that money can grow and ultimately be distributed tax-free.

Year-end is peak charitable-giving season. What's prompting donors to give today, and how are some of the recent tax-law changes affecting planning conversations?

People often come at charitable giving from an income tax perspective, but they should also be thinking about what's important to them.

Nonprofits are struggling right now. There have been government funding cuts, and many organizations are in greater need than they may have been in other years. Hopefully that's encouraging donors to think about getting resources to where the need exists.

From a planning perspective, appreciated securities remain one of the most powerful ways to give. After the run-up we've seen in the markets, many investors are sitting on substantial gains. That's a good opportunity to say, "I'm going to take some of those gains and give them away."

The recent tax-law changes also make certain strategies more attractive. In particular, I think you'll see greater use of QCDs because they're not affected by some of the new limitations that apply to charitable deductions.

I also think you'll continue to see more bunching of charitable gifts. People will say, "If I need to get over this threshold before I can fully benefit from my charitable deduction, shouldn't I be doing four or five years' worth of gifts in one year?"

The intention isn't to give everything away at once. The intention is to fund those gifts over the next four or five years.

That's one reason donor-advised funds have become so popular. I get the deduction in the year I contribute to the donor-advised fund, but I can distribute those dollars to charities over time.

For someone who hasn't really developed a charitable-giving strategy, where should they begin?

First, talk to your planner.

You always want to start with the big picture. What are my goals? What do I want to accomplish? How much do I want to give away, and how much can I afford to give away?

But I would encourage people not to approach charitable giving strictly from an income tax perspective. Think about the legacy you want to leave. What organizations matter to you? What causes matter to you? Who do you want to benefit?

It's also an opportunity to involve the family, particularly if children are getting older. Ask them what matters to them. What causes do they care about? It's a chance to share values and have a broader discussion about the family's legacy.

Sometimes it also makes sense to bring in a philanthropic advisor.

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A family might say, "I want to do something meaningful in the arts, but I don't just want to make another contribution to a large institution." A philanthropic advisor may be able to identify smaller organizations where that gift can make a bigger impact.

Once you've thought through those questions, then you come back to the planning side and ask: What's the most tax-efficient way to accomplish these goals? Is it a donor-advised fund? QCDs? A charitable trust? That's where the implementation discussions begin.

We've talked about QCDs, donor-advised funds, and charitable trusts. How should people think about choosing between them?

It depends a lot on what you're trying to accomplish and the size of the gift.

QCDs can be extremely effective for someone who's already taking RMDs because they allow those dollars to go directly to charity while reducing taxable income.

Donor-advised funds work very well for people who want flexibility, particularly if they're using appreciated securities or bunching several years of charitable giving into a single tax year.

Charitable trusts are different. They're more expensive to establish and administer, so you generally don't want to create one for a relatively small gift.

A charitable remainder trust, for example, can provide an income stream to a beneficiary for life or for a term of years, with the remaining assets ultimately going to charity. They can be attractive for someone who is selling a business or has a highly appreciated asset and significant charitable intentions.

Charitable lead trusts work in the opposite direction. The charity receives the income stream during the life of the trust, and the remaining assets eventually pass to family members.

For most people, the decision starts with their goals. Once we understand those goals, the appropriate vehicle usually becomes clearer.

What should retirees know about RMDs, and what mistakes do you see most often?

Number one: Make sure you take them.

Usually your planner or advisor is helping you monitor your RMDs, but the rules can become more complicated if you have multiple IRAs.

In some situations, you can satisfy RMDs across accounts by taking the entire amount from a single IRA. That's perfectly fine, but it's important that your advisors know that's what you're doing. Otherwise, another advisor may think you still need to take a distribution from a different account.

The second issue is withholding. If you're taking a large RMD, make sure the federal and state tax withholding is appropriate. Run the numbers by your planner and your tax preparer so you're not taking out too much or too little.

And if charitable giving is already part of your plan, don't overlook QCDs. They remain one of the most tax-efficient ways to satisfy charitable goals while reducing taxable income.

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If someone could schedule only one planning conversation before year-end, what should that discussion cover?

A lot of the things we've already talked about: year-end charitable giving, gifts to family members, reviewing withholding and estimated tax payments, making sure retirement plan contributions are on track, and determining whether a Roth conversion makes sense.

One area that people sometimes miss is the interaction between charitable-giving strategies and Roth conversions.

If you're bunching charitable gifts into a donor-advised fund, that may lower your taxable income enough to create room in a lower tax bracket. If that's the case, it may make sense to pair that strategy with a Roth conversion and take advantage of that lower rate while it's available.

Those are exactly the kinds of opportunities you want to identify before December turns into January.

Thank you for your time and advice, Frank!

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