35: Maximizing and Simplifying Charitable Giving

Full Episode Transcript

With Your Host

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Welcome to The Wealthy Mom MD Podcast, a podcast for women physicians who want to learn how to live a wealthy life. In this podcast you will learn how to make money work for you, how you can have more of it and learn the tools to empower you to live a life on purpose. Get ready to up-level your money and your life. I'm your host, Dr. Bonnie Koo.

Welcome to episode 35. If you happen to be listening on the day this podcast comes out, it's Thanksgiving Day in 2020. I hope you're having a wonderful day and I realize that many of us are not spending it with the people we usually do, right, because of COVID.

So, today, I want to talk about charitable giving and just talk about giving in general. Now, I don't think any of us gives just for the tax break, I hope. But it's definitely the icing on the cake.

So, before we dive in, I just want to say that I think one of the best things about making money and having money is giving it away for good and making an impact.

In fact, it was Stu McLaren, who's big in the online marketing world, who told me that the more money you make, the more impact you can have. And that really stuck with me.

And when it comes to my own journey with charitable giving, I want to share a quote by Tony Robbins. And this is the quote that really helped me see why giving is important, at least for me. And so, he said, "People say, when I'm rich, I'll give. They're lying. If you won't give a dime out of a dollar, there's no way you're going to give 100 million out of a billion. But if you can do it today, the biggest thing that giving does is it teaches your brain there's more than enough." So good.

I love this quote because it goes into the scarcity mindset. And I do have an episode where I talk about scarcity and how to get out of that mentality. But I think giving is one of those actions that does help you teach your brain, like Tony Robbins just said, to get out of that, "There isn't enough money," mindset. And that giving, no matter what amount that is for you, it does teach your brain, there is enough, “I have enough money for me and I have a little bit to give away for good as well.” And that just feels amazing.

And so, just to give you a bit of my personal history with giving, I used to honestly be like what Tony Robbins was saying. During medical school, even during residency I’d say, “Well, I’m a student, I don’t really have money to give away.”

And then, as a resident, even though I was making a decent salary, and in fact the average salary for an American, I still kept saying, “Well, I’m only a resident. I’ll wait until I’m an attending to give.” And it just kept moving forward and forward. And then, once I became an attending, a full attending in New York City, I said, “Well, I have all these student loans. So, maybe, when I’m done paying those off, I’ll start giving.”

And so, not that that was flawed thinking, per se, but I was teaching my brain that there isn’t enough and that I have to keep waiting until I have more money. And then, when I heard this quote, it kind of hit me like a ton of bricks. Like, how can I figure out how to give some money today?

And giving is kind of a personal choice. I’m not saying that you should give to charity. But I know many of you do and so I think it’s a great way to think about, giving to charity, giving to causes you love, one of the best ways that I love to spend my money.

So, when it comes to actually how to do that, I think that’s kind of obvious. You can just write a check, put in your credit card to give to a cause that you feel strongly about. On the flipside of that though is you have to keep track of it for tax purposes. And that’s, to me, kind of annoying.

And one of the things that I love to teach my students inside my program Money for Women Physicians is how can you make this easy, how can you simplify your money management? And this goes for any area of your life.

How can I make it easy? How can I make this easier for me, simpler for me?

And so, when it come sot charitable giving, I think one of the ways to make it even easier is to consider something called a donor advised fund. So, before I go into what that is, a donor advised fund, we also call it a DAF for short, let's just talk about the regular way that most people give, which I just to send a check, put your credit card down et cetera, and then you have to keep track of it for tax purposes.

Now, in 2020, the current tax law is such that the standard deduction is higher, which means it's a little bit harder to itemize deductions. And so, when it comes to charitable donations, unless your itemized including the charitable donations are over the current standard deduction, you may not be able to take the tax break, which is kind of a bummer.

Like I said, I don't think anyone gives just for a tax break, but it is the icing on the cake. So, how can you maximize your tax deductions while still giving to the charities you love. Well, I have two options for you. One is to plan a bit ahead and to sort of lump your giving every other year or every third year, depending on now much you give.

Why? Because then you could take that amount of money – let's say you tend to give $5000 a year. But that might not get you over that standard deduction where you can itemize and get that tax break, right? But if you do it every other year or every third year – let's say every third year – then that would be $15,000 and then you would certainly, probably get over that standard deduction, depending on if you're single or married, right?

And so, that's just one strategy. But the other strategy is to use a donor advised fund. And this is something that I was personally hoping to create this year. But it looks like we probably won't.

So, a donor advised fund is basically where you have your own charitable fund. First of all, that just sounds kind of fancy. Like, I have my own fund where I can give to charity.

And so, anything that makes me feel, sort of, of a higher status – I know that sounds kind of strange but it makes me feel kind of cool. Well, I don't have one yet, but once I do, I feel like that would be just sort of neat to be able to say that. And so, there's that sort of cool factor.

Number two is you donate to the fund, and when you donate to the fund is when you get the actual tax break on your tax return. So, what does this mean? This means that the year that you're ready to open up a fund – and I'll talk about where you can do that in a second – you can donate something like $10,000 or $20,000 or $30,000. Or you can do a larger amount. And take that tax break the year that you do that.

And then, the best part is you donate from the fund. It's all one online. But you don't have to give track of where you've contributed for tax purposes because you already took the tax break when you donated to the actual fund. Does that make sense? I hope I haven't lost you.

Let me just repeat that again. When you open a donor advised fund, you contribute to it. and usually, when you open one, you donate a larger amount. So, let's say $10,000, $20,000, $30,000, whatever. You take the tax break the year you fund the fund. And then you give from the fund to your favorite charities, et cetera. But you don't have to keep track of it because you've already got the tax break. Do you see what I'm saying?

And so, this is one way to simplify your giving, because you don't have to keep track of it. Anything you have to keep track of in terms of receipts, that to me is just like extra work. It takes up extra space in my mind. I'm all about simplifying and automating as much as possible in all areas of my life.

So, if you are someone who loves to give, doesn't want to have to deal with where's the receipt, scanning it, et cetera, keeping the records for seven years, because supposedly you should be keeping any tax records for seven years. Like, who does that, really? I don't anyway. You don't have to do that with this?

And so, where do you open a donor advised fund? Great question. So, I'll just name the most popular ones. And these are custodians that many of you are already familiar with? So, Vanguard, Fidelity, and Charles Schwab are the first that come to mind.

Now, they all have different amounts in terms of minimum amount to start the fund, and so, Vanguard has the highest at the time of this podcast recording. I believe it's $20,000, in that range. And so, if you want to start one but you don't want to start with $20,000, then you can go to Fidelity or Charles Schwab. They have lower minimums.

Now, you might ask me, "Well, where should I open in?" Let's say the startup fund or startup fee isn't a big deal for you. I would open it wherever you have your taxable brokerage account, if you have one.

So, a taxable brokerage account is just simply where you have money that you invest in the stock market. That's after-tax money, meaning it's not inside of a Roth IRA or a regular IRA. It's not your retirement fund. It's just extra money that you invest.

And so, our taxable account is at Vanguard. And so, it would be easier if I create my donor advised fund at Vanguard. And then the next question you might have is, why? Besides the fact that I just like to keep things simple – as I've said before, I like to keep things in similar places because I'm already familiar with Vanguard and their funds.

But the second reason why this is also a good thing to do, meaning keeping like with like when it comes to your taxable brokerage account and your donor advised fund is because you can then donate directly from your taxable account into your donor advised fund and take advantage of another tax break. Are you ready?

Did you know you can donate appreciated shares from your taxable account to charity? Maybe you knew this. Maybe you didn't. And why is this such a great thing and why is it such a big deal? There's a few things.

Number one is when you donate appreciated shares, like if I bought an index fund and it went up in value, which we all hope is what happens when we invest, when I donate that to a charity, I don't have to pay capital gains on those appreciated shares. In fact, I can deduct the full amount of the appreciated shares I donate. And the charity gets the full amount of the appreciated shares and they don't pay capital gains as well.

So, basically, nobody pays capital gains. Everybody wins because I get the tax break at the appreciated shares amount and the charity gets the fully appreciated shares and they don't pay taxes either.

So, you can do this directly, whether you have a donor advised fund or not, just FYI. But if you do have one, it's much easier to donate it from your, let's say, Vanguard taxable account directly to your Vanguard donor advised fund. So, that's what I mean by keeping things simple, keeping things in-house.

So, if you have your taxable brokerage account at Fidelity, then you should look into the Fidelity donor advised fund. Or if you have it at Charles Schwab then likewise.

And so, I think this is a great way to donate to charity using your taxable brokerage account because the money is invested, hopefully. It's going to grow. And if you use it for yourself, you have to pay capital gains, whether it's long-term or short-term, right? But if you donate it to charity, you don't have to.

So, in some ways, I think it's a better way to donate because it's going to appreciate, and then you can donate that appreciated share to the charity without having to pay capital gains.

So, two caveats I want to say about giving and taxes. One is, if you are going to donate appreciated shares, there is an IRS rule that limits it to 30% of your adjusted gross income in any given year. If you're donating cash, meaning via check or credit card, you can deduct up to 50% of your adjusted gross income.

Now, most of us probably aren't giving anywhere near that level, so it's not something to think about. But in the future, if you start to give more, then it's something you'll have to think about. That's all.

Lastly, if you're relatively new to giving or haven't because you were maybe like me in thinking, "Well, I don't really have any extra money to give," I would just question that belief that you don't have extra to give. Because like I said, even if you give a little bit, it does start training and teaching your brain that not only do you have enough for yourself, but that you actually have enough to give away as well. And that is just so powerful and will really help retrain that scarcity mindset.

Well, that's all I have for you today. And so, thank you so much for tuning in. And I would totally love it if you would not only subscribe to this podcast, but also left a five-star review. It helps other people find this podcast as well. Thank you so much. See you next week.

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