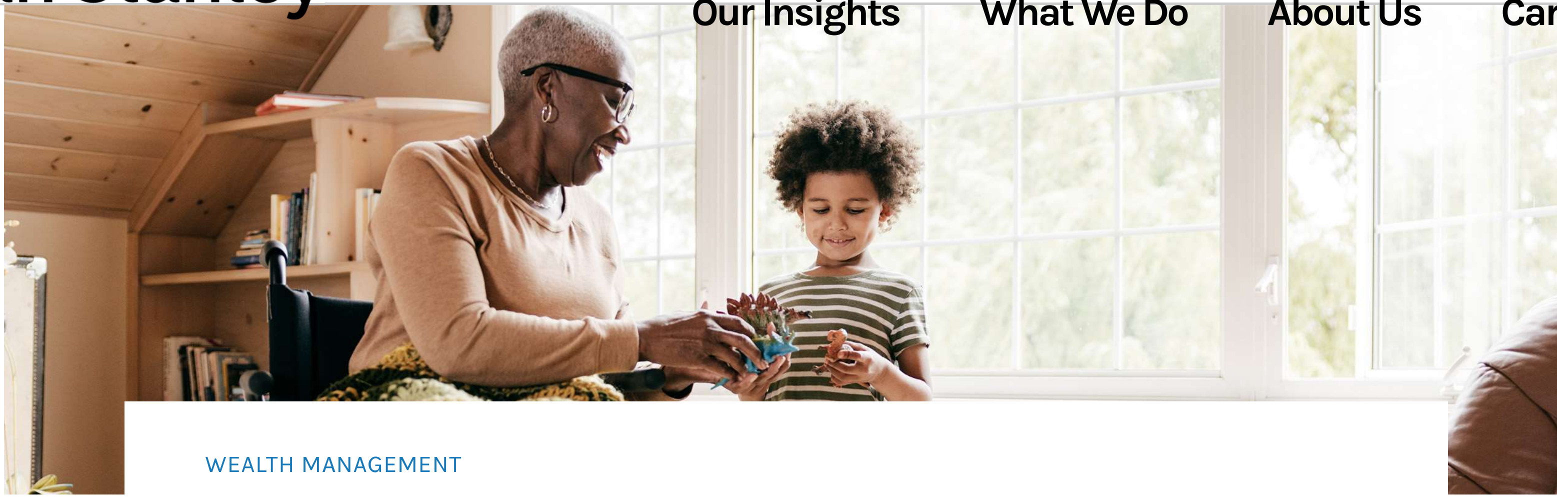

WEALTH MANAGEMENT

5 Tax-Savvy Ways to Give

If you're inclined to help others, consider these ways to make your giving go further.

Key Takeaways

- It is possible to donate to the causes you care about while potentially reducing your federal income tax burden.
- A donor-advised fund (DAF) and a 529 education saving plan are two examples of ways to give.

One of the reasons that you work so hard is to give back to others. But you also want to make sure that your support for the causes and people you care about has the biggest possible impact and may also reduce your own taxes.

The rules around deducting charitable contributions has changed for 2026. Individuals who don't itemize will be able to deduct up to $1,000 ($2,000 for married couples filing jointly) for qualified cash donations. If you're in this category, you might be able to take advantage of the new rules.

Individuals who itemize their deductions, on the other hand, face new limits on charitable deductions. First, charitable contributions are only deductible to the extent they exceed 0.5% of adjusted gross income (the "AGI floor"). Second, after applying the AGI floor and all other limitations, the total amount of itemized deductions will be reduced by 2/37ths of the lesser of (1) the total itemized deductions, or (2) the amount by which taxable income exceeds the threshold where the 37% tax bracket begins. This 2/37ths reduction effectively limits the tax benefit of itemized deductions (including charitable contributions) to 35% for taxpayers whose income reaches the 37% bracket threshold.

Note that contributions disallowed by the 0.5% AGI floor may be carried forward to future tax years under specific ordering rules, which may affect long-term planning strategies. Even if taxes aren't the primary motivator for your giving strategy, consider these ways to make your giving go further:

Give Through a Donor Advised Fund

Especially in a high-income year, a **donor-advised fund** can be an impactful way to structure your charitable giving. A donor-advised fund (DAF) gives you a low-cost way to donate appreciated stock, mutual funds or other assets and claim a federal income tax deduction in the year you make the donation.[1]This strategy can give you some time to craft a thoughtful, long-term giving plan, while getting the full tax benefit right away. Additionally, these assets can remain invested and potentially grow income tax-free until you recommend which charities should receive a cash donation and the fund administrator disburses funds from the DAF.

2

Give the Gift of Education

Interested in helping your children or grandchildren cover the ever-increasing cost of college or private school tuition? Consider giving gifts through a **529 education savings plan**. Money in such a plan grows income tax-free, and you pay no taxes on withdrawals, if used for qualified education expenses.

Anyone, including grandparents, can contribute up to $19,000 per year ($38,000 for married couples electing to split gifts) to any individual's 529 plan without incurring federal gift tax or using the federal lifetime gift tax exemption.

Additionally, unique to 529 plans, the federal tax code allows you to front load up to five times the annual gift tax exclusion amount in a single year.[2] Individuals can give up to $95,000 per recipient in a single year, while married couples electing to split gifts can give up to $190,000.

If you have the means, you can even take advantage of six-year gift tax averaging. To do this, you can contribute one year's worth of gifts in December, followed by five years' worth of contributions in January, effectively making six years' worth of contributions in just two months.[3]

Also note that 529 plan account owners may take federal income tax-free 529 plan distributions not only for qualified higher education expenses, but also for certain primary and secondary education expenses, apprenticeship expenses and student loan repayments.[4] New rules also allow you to transfer some unused 529 funds to a Roth IRA for the beneficiary, provided certain conditions are met.

Morgan Stanley offers the Morgan Stanley National Advisory 529 Plan, the first 529 plan of its kind, available nationwide, exclusively to Morgan Stanley clients.

3

Reduce Estate Taxes with Financial Gifts

one year to the next.[5]

The federal annual gift tax exclusion doesn't count against the federal gift tax exemption of $15 million for individuals or $30 million for married couples.[6]

4

Consider Available Tax Benefits When Choosing Which Assets to Donate from Your Investment Portfolio

You can donate securities to qualified charitable organizations or a donor-advised fund, and your tax benefits will depend, in part, on whether these securities have appreciated or depreciated in value relative to their purchase price.

For instance, if securities have appreciated since purchase and have unrealized capital gains, donating the securities themselves would allow individuals to take a deduction in the year they make the donation and avoid paying federal capital gains tax on the appreciation.

In contrast, if you donate securities which have unrealized capital losses, you could potentially miss an opportunity to realize those losses and subsequently offset realized capital gains. Therefore, in the case that you're considering the donation of securities with embedded losses, it may be prudent to sell the securities first to realize the losses, and then donate the proceeds of the sale to a qualified charity for an additional federal income tax deduction.

5

Use Charitable Remainder Annuity Trusts (CRATs)

You may consider certain charitable planning strategies that benefit from a higher interest rate environment, such as Charitable Remainder Annuity Trusts (CRATs). With a CRAT, you as the grantor would create and fund an irrevocable trust and receive a federal income tax charitable deduction for the year the trust is funded. The CRAT subsequently distributes a stated annual annuity amount – in other words, an annual income stream – to you, your spouse or other non-charitable beneficiaries. The annuity amount is typically a stated percentage of the trust's value at the time the trust is funded, which must be at least 5%, but no more than 50%. At the end of the term of the trust, the remainder of the assets are distributed to the charity or charities indicated within the trust agreement. When the trust is created, the present value of the charities' remainder interest must be at least 10% of the value of the trust.

The recent increase in interest rates may make this strategy more effective, in part because higher interest rates mean that trusts with higher annuity payments to the non-charitable beneficiaries can satisfy the 10% remainder test. Speak with your tax advisor to see if this strategy makes sense for you, because such trusts are irrevocable, meaning once they are put in place you cannot reverse them.

If you have complex tax planning needs, your Morgan Stanley Financial Advisor can connect you to experienced tax professionals (depending on your needs) at leading U.S.-based providers across the country to assist.

In addition, through Morgan Stanley **Total Tax 365**, Morgan Stanley Financial Advisors can assist with the implementation of strategies to help you deepen the impact of your giving and potentially reduce the impact of taxes, all year round. Talk to your Morgan Stanley Financial Advisor to learn more.

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Footnotes:

[1] *The maximum deduction for a cash gift to a DAF is limited to 60 percent of adjusted gross income (AGI);*

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