Common Tax Strategies for Charitable Giving

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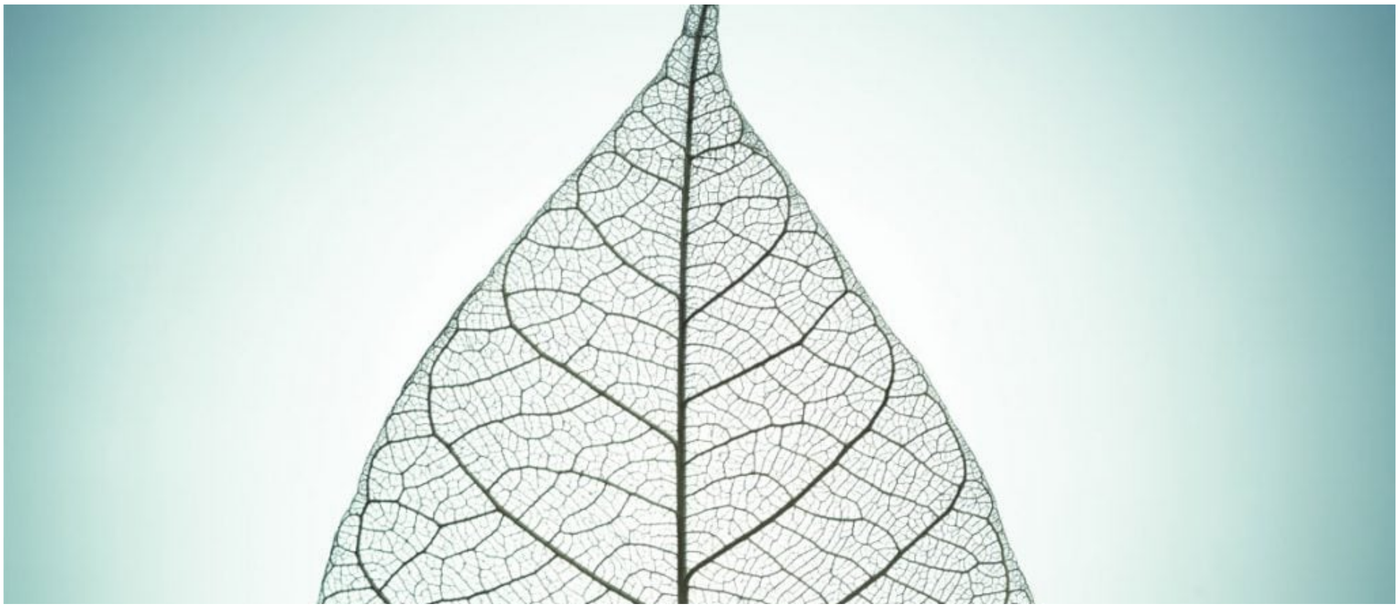

Every year, millions of Americans make donations to various charitable organizations. In addition to providing valuable resources for organizations, charitable giving can provide tax benefits to the donor.

For those wishing to donate to charitable causes, it can be a challenge to determine the options available for tax-efficient charitable giving. Two tax-efficient charitable giving strategies are itemized charitable deductions and qualified charitable distributions.

Itemized Charitable Deductions

When making charitable contributions to a 501(c)(3) public charity or private foundation, an individual has the option to claim a charitable deduction on their income taxes. To utilize this deduction, an individual must itemize their income tax deductions.

This is a highly attractive option for anyone who already has other itemized deductions, like property taxes or mortgage interest, or wishes to make large charitable contributions that exceed the 2018 standard deduction amount ($12,000 for single filers or $24,000 for married couples filing jointly).

When donating cash to a qualifying charity, an individual may deduct up to 60 percent of their adjusted gross income (AGI). For appreciated assets such as property and long-term appreciated stock, an individual can generally deduct the fair market value of the assets up to 30 percent of their adjusted gross income.

Due to the current high standard deduction, the strategy of lumping planned charitable giving into a single tax year, rather than spreading out the payments over multiple years, is the most tax-efficient means of charitable giving for individuals whose charitable donations and available deductions would not otherwise be higher than the standard deduction.

For those who wish to lump together their charitable contributions for tax efficiency but who are unsure of what organizations they wish to donate to, a donor advised fund may be a useful option. A donor advised fund enables the taxpayer to immediately claim a deduction in a single tax year but stagger charitable distributions across several years.

Qualified Charitable Distributions

For individuals over the age of 70½ who are in possession of an individual retirement account (IRA), qualified charitable distributions (QCDs) can be made. This allows taxpayers to give up to $100,000 per year to qualified charities through their retirement savings account.

QCDs count toward required minimum distributions and are not included in adjusted gross income, allowing anyone to realize a tax benefit regardless of whether they itemize their deductions.

QCDs must go directly to a qualified 501(c)(3) organization; distributions to private foundations or donor advised funds do not qualify for QCD tax treatment. The IRS has a public, searchable database of all registered 501(c)(3) organizations, called Tax-Exempt Organization Search, that can be used to research eligible charities.

The use of QCDs from an IRA could have a compounding tax benefit by lowering AGI, which in turn has the potential to decrease taxes on Social Security benefits and lower the threshold for miscellaneous expenses tied to AGI, such as medical expense deductions. For this reason, the use of QCDs for charitable donations is one of the most tax-efficient charitable giving methods available.

With a little planning, philanthropic interests can benefit a taxpayer personally and financially, while making a positive impact in the community. When choosing how to give, it is vital to understand your overall financial plan, charitable giving goals and annual tax returns to determine the strategy that is most appropriate for you.

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