Things to Consider When Making a Charitable Gift This Year

Both the 2017 Tax Cuts & Jobs Act and the 2020 CARES Act have affected the tax benefit that individuals may receive for making charitable donations in 2020. Charitable donations are generally an itemized deduction on an individual's tax return. A taxpayer will subtract the greater of his itemized deductions or the standard deduction from gross income to arrive at taxable income. Under the 2017 Act, standard deductions were raised, resulting in many taxpayers not itemizing deductions and therefore not getting a tax benefit for their donations to charity. For 2020, the standard deduction for taxpayers filing as single is $12,400 and for those filing as married is $24,800.

For 2020, under the CARES Act, individuals can take a $300 deduction for a qualified charitable contribution even if they do not itemize deductions. The contribution must be made in cash. The cash must be contributed to churches, nonprofit educational institutions, nonprofit medical institutions, public charities, or any other organization.

Under the 2017 Tax Cuts and Jobs Act, the itemized deduction for cash donations to public charities is limited to 60 percent of an individual's adjusted gross income in years 2018 through 2025. However, under the 2020 CARES Act, this income-based percentage limit is temporarily eliminated for an individual taxpayer's cash charitable contributions to public charities, private foundations other than a supporting private foundation, and certain governmental units. Thus, an individual may deduct any qualified charitable contribution if the contribution does not exceed the individual's adjusted gross income. An individual may carry forward for five years any qualifying cash contributions that exceeds his or her adjusted gross income.

Tax Planning Strategies:

Taxpayers over 70 ½ years of age may be allowed an exclusion from gross income for distributions from their IRA made directly to a charitable organization of up to $100,000 ($100,000 for each spouse on a joint return). A qualified charitable distribution counts toward satisfying a taxpayer's required minimum distributions from a traditional IRA. The amount made directly from the IRA to the charity does not count as a deductible contribution but the distribution from the IRA is not taxable either.

Bunching your contributions in one year instead of spreading them over two can allow you to itemize in the year of the double contributions but then take advantage of the standard deduction in the other year.

Consider donating appreciated assets rather than selling them and donating the proceeds to avoid capital gain on the sale.

Large contributions require special tax planning considerations. First, you must determine whether it is advisable to contribute during your lifetime or at death. Thus, your income and prospective estate tax brackets must be considered. You should take into consideration the income tax deduction limitations on your personal return as well the fact that there are no limitations for estate tax charitable contribution deductions. Also, you should consider whether you can afford the gift, not only in the current year, but in future years as well. This requires an analysis of the financial needs of you and your family, which may indicate that some form of deferred charitable giving is appropriate

Important Reminders for Deducting Charitable Donations:

The IRS requires that donations of $250 or more must be substantiated in order to be deductible. The burden is on the donor to obtain written substantiation because a canceled check may not be sufficient to support a deduction. The amount of the contribution is fully deductible whether it is paid by cash, check or credit card, but it must be paid before the end of the year, not just pledged to pay.

A charitable deduction is not allowed to the extent you receive a benefit for the contribution, such as admission to a charity ball, banquet, show or sporting event. In such cases payments qualify for the deduction only to the extent they exceed the fair market value of the benefit received.

A deduction is not allowed for the value of services contributed to a charitable organization. However, if you are active in such organizations any out-of-pocket expenses incurred while performing volunteer services are deductible. Also, if you use your automobile you may be able to take a deduction at the standard mileage rate of 14 cents per mile.

Noncash donations of items such as cars, trucks, boats, aircraft and appreciated property may require an appraisal. Finally, donation of clothing and household items must be in good used condition or better to be deductible.

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