Tax Benefits of Giving to Charities Following the CARES Act

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With the recent changes to tax laws, you may no longer benefit from itemizing your deductions due to state and local tax deduction limits ($10,000/year) and the doubling of the standard deduction (now $12,200 for single and $24,400 for married filers). **The CARES Act allows for an additional, "above-the-line" deduction for charitable gifts made in cash of up to $300**. **If you are not itemizing on your 2020 taxes, you can claim this new deduction.**

However, if you normally give to one or more non-profits each year and want to continue to support them, you maybe able to receive a tax benefit by "bunching" your charitable contributions. **Bunching** is giving your charitable giving in tax year one, and not making any (or smaller) charitable donations in the following tax years. This can be done of three, four or five years, but one should remember that non-profits are counting on your gifts. By doing this, you will have more deductions over the period than you would if you made the same charitable contribution amount in each of the individual years.

The chart below illustrates how this works using two years as an example. It shows, with the assumed amounts of state and local taxes, mortgage interest and charitable contributions, that total deductions are increased by $5,000, from $48,000 to $53,000, over the two-year period by bunching the charitable contributions for the two years in a single year.

	PAY THE SAME	EVERY YEAR	BUNCHING	DEDUCTIONS
	Year 1	Year 2	YEAR 1	YEAR 2
Taxes	$10,000	$10,000	$10,000	$10,000
Mortgage Interest	7,000	7,000	7,000	7,000
Charitable Contributions	6,000*	6,000*	12,000**	————**
TOTAL DEDUCTIONS	$23,000	$23,000	$29,000	$17,000
Standard Deduction	$24,000	$24,000	$24,000	$24,000
Total Deduction over 2 Years	**$48,000**		**$53,000**	

*Taxpayer does not benefit from charitable contributions as the standard deduction is more beneficial.

**Taxpayer benefits from charitable contributions in Year 1 as this is more beneficial than the standard deduction. In Year 2 the standard deduction is more beneficial and no charitable gifts are made.

Donor Advised Fund: A donor-advised fund (DAF) is like a charitable investment account, for the sole purpose of supporting charitable organizations you care about. When you contribute cash, securities or other assets to a DAF you are eligible to take an immediate tax deduction. Then those funds can be invested for tax-free growth and you can recommend grants to virtually any IRS-qualified public charity. You can decide in which years, and in what amounts, you want to recommend that distributions be made to charities from the fund. In other words, you can claim a tax deduction immediately and support your favorite charities in future years.

Donating Appreciated Securities: Leverage a smart tax strategy of gifting appreciated stock/mutual funds to charity— that's held for at least a year—allowing you to avoid capital gains taxes, which means you save even more due to the cap on deducting state and local taxes. The charitable entity will receive the fair market value of the stock. Appreciated securities can also be given to a DAF.

Your Retirement Account: If you are age 72 or older, you are eligible to make a qualified charitable distribution (QCD) directly from your IRA to help satisfy your required minimum distribution (RMD) amount for a given year even in 2020 when a RMD is not required. These contributions reduce your taxable income for the year, even if you don't itemize deductions. IRA distributions of this type cannot go to a donor advised fund, but can have the IRA distributions made directly to the charity.

Please contact Amber email amber@mcpasdfoundation.org to discuss these options.

You should always consult your own tax advisor before employing any tax planning strategy.