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How Best to Make Charitable Donations in 2021

Consider these tax efficient ways to give more with less!

Why not donate appreciated stock with embedded long term capital gains?

If you are 70½ or older, using Qualified Charitable Distributions (QCD's) can be very tax efficient too!

How can you avoid paying capital gains tax and deduct the entire market value of donated stock as an income tax deduction?

If you itemize your tax deductions and are planning on making charitable gifts to your favorite qualified charity(ies) before year-end, instead of writing a check and donating cash, you may want to consider gifting appreciated stock with embedded long-term capital gains. Not only will you receive a tax deduction based on the full market value of the donated appreciated securities (subject to Adjusted Gross Income limits), you will also avoid recognizing the capital gains had you sold the stock yourself. This is one low-cost way to give money to charity with much less than if you would have sold the assets, paid the capital gains tax, and then wrote a check to the charity.

Are you 70½ or older? If so, you can donate money to charity directly from your Individual Retirement Arrangement (IRA) account.

If 70½ or older you also have the option of making charitable donations directly from your IRA account. Each individual may give up to $100,000 annually from their IRA account as Qualified Charitable Distributions (QCDs). QCDs enable you to give money to charities from your IRA account with pre-tax dollars. Such QCDs count toward your annual Required Minimum Distribution (RMD). If you are 72 or older, these RMDs must occur annually.

Your RMD is the minimum amount you must withdraw from your IRA account each year. You generally must start taking withdrawals from your IRA account when you reach age 72 (70½ if you reached 70½ before January 1, 2020).

Even if you are not itemizing your tax deduction, the Coronavirus Aid, Relief and Economic Security (CARES) Act allows for an "above-the-line" deduction for charitable gifts made to qualified charities in cash of up to $300 for taxpayers filing single or filing separately and $600 for those married filing jointly in 2021.[1]

Donating Appreciated Securities

Donating appreciated stock, bonds, ETFs (Exchange Traded Funds), and mutual funds with long term capital gains (held for more than one year) to a qualified charity has two benefits. First, you avoid having to pay the capital gains tax had you sold the security yourself. Second, for those who itemize deductions the full market value of the donated stock can be a tax deduction (subject to Adjusted Gross Income or "AGI" limits).

If you do not routinely exceed the standard deduction on an annual basis, you may want to consider making a lump sum donation in any given year rather than over several different years. This "bunching" gifting strategy may help the itemized deduction to exceed the standard deduction in the year you make such gifts.

As mentioned earlier, the amount of charitable contributions taxpayers can deduct on Schedule A as an itemized deduction is limited to a percentage of the taxpayer's AGI. The percentage limit depends on the type of gift and charity receiving the gift.

Qualified Charitable Distributions (QCDs)

If you own an Individual Retirement Arrangement (IRA) account and are 70½ or older you may want to consider making Qualified Charitable Distributions (QCDs). QCDs are donations made to qualified charities directly from your IRA account. The annual maximum allowable amount for QCDs is $100,000.

Because distributions are made directly from IRA accounts, QCDs are excluded from AGI for tax purposes, so they are not reportable as income to you. This is a benefit because many deductions phase out or disappear altogether above certain AGI limits. AGI can also affect the amount of taxes you pay on your Social Security benefits and modified adjusted gross income (MAGI) which determines Medicare Part B and Part D premiums.

QCDs can also be used to fulfill Required Minimum Distributions (RMDs). The Setting Every Community Up for Retirement Enhancement (SECURE) Act passed on December 20, 2019, changed the age for Required Minimum Distributions (RMDs) from 70½ to 72 (for those turning 70½ on or after January 1, 2020).

The SECURE Act also allowed for those 70½ with earned income to continue to make contributions into their IRA accounts. It is important to note that if one does make a tax-deductible contribution into their IRA and also does a QCD, a portion or all of the QCD may not be excluded from income taxes.

Each person's individual financial and tax scenario is different. We recommend you speak with your tax professional and us to discuss the best gifting strategy for you and your family. Please let us know if we can help with any issues that have a financial aspect in your life. We welcome the opportunity to discuss your goals and the most appropriate strategy to pursue them.

[1] https://crsreports.congress.gov/product/pdf/IN/IN11420#:~:text=The%20CARES%20Act%20and%20the,who%20take%20the%20standard%20deduction.

This information was compiled by Ginsburg Financial Advisors.

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