Tax Tips for Charitable Donations

Charitable giving is a great way to support the causes you care about while also getting a tax break. In 2020, Congress passed the Coronavirus Aid Relief and Economic Security (CARES) Act, which incentivized charitable giving by offering new rules for charitable deductions. As we move into the new year, now is the time to make sure you're making your 2020 deductions properly and planning for your 2021 charitable giving. Here's a look at what you need to know.

2020 Tax Moves

The CARES Act temporarily changed some of the rules around tax deductions for charitable giving in 2020 to encourage people to make contributions during the coronavirus pandemic. If you haven't filed your 2020 taxes yet, you can still take advantage of these benefits.

If you itemize your deductions, the CARES Act allows you to deduct up to 100% of your adjusted gross income (AGI) — a significant increase from the 60% limit the year before. And if you exceed that limit, you can carry over the excess amount for up to five years. This rule only applies to cash donations, however. The limit for deductions of appreciated long-term securities remains the same as in previous years at 30% of your AGI.

The CARES Act also allows those who don't itemize to claim a charitable deduction. For the 2020 tax year, donors who opt to take the standard deduction have the option to claim an "above the line" deduction of $300 for cash contributions to qualifying charities. Again, this rule does not apply to non-cash contributions, including clothing or appliances. Also, the deduction can only be claimed once per household unit, so if you are married and filing jointly, you can only claim this deduction once.

In either case, whether you take the standard deduction or itemize, the cash donations you're claiming must have gone directly to operating organizations that are charitable, educational, or scientific in purpose and not private foundations or donor-advised funds.

Looking Ahead to 2021

The changes from the CARES Act only apply for the 2020 tax year, but there are still ways to maximize tax benefits for charitable giving in 2021.

If you want to claim a charitable deduction when filing your 2021 taxes, you will have to itemize your deductions. For itemizing to make sense, your total deduction must exceed the standard deduction, which will be $12,550 for single filers, up from $12,400 in 2020. For those married filing jointly, the 2021 standard deduction will be $25,100, up from $24,800 in 2020.

A higher standard deduction can make it more difficult to have enough deductions to consider itemizing. But consolidating or "bunching" deductions from multiple tax years could allow you to itemize some years and take the standard deduction in others.

For example, suppose a single taxpayer could deduct $5,000 in mortgage interest, $3,500 in state and local tax deductions, and another $2,000 in charitable contributions for a total of $10,500. This amount doesn't exceed the standard deduction, so itemizing wouldn't make sense. However, if the taxpayer could bunch three years' worth of charitable deductions, the individual would clear the standard deduction by $1,950 and be able to itemize this year. They would likely take the standard deduction in the following two years.

If you gave to charity in 2020, be sure that you are taking full advantage of the deductions available to you on your 2020 returns. And as you look ahead to the upcoming year, careful planning can ensure that you continue to get your maximum deductions while you do good for the causes you care about.

Sources:

https://www.irs.gov/charities-non-profits/charitable-organizations/charitable-contribution-deductions

https://www.irs.gov/newsroom/special-300-tax-deduction-helps-most-people-give-to-charity-this-year-even-if-they-dont-itemize

https://www.irs.gov/newsroom/how-the-cares-act-changes-deducting-charitable-contributions

https://www.irs.gov/newsroom/irs-provides-tax-inflation-adjustments-for-tax-year-2021#:~:text=For%20single%20taxpayers%20and%20married,tax%20year%202021%2C%20up%20%24150.

Disclosures:
This information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. This material was created by The Oechsli Institute, an independent third party that is not affiliated with Balance Wealth.

This Presentation was created for educational and informational purposes only and is not intended as ERISA, tax, legal or investment advice. If you are seeking investment advice specific to your needs, such advice services must be obtained on your own separate from this educational presentation.

Securities offered through LPL Financial, member FINRA/SIPC. Investment Advice offered through Independent Advisor Alliance, a registered investment advisor. Independent Advisor Alliance and Balance Wealth Partners are separate entities from LPL Financial.