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Charitable Donations

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The almost doubling of the standard deductions and the limit on state and local tax (SALT) deductions may change how you make charitable donations. Bunching contributions, using donor advised funds and making charitable gifts from IRA accounts if over age 70.5 have become more attractive options.[1]

The standard deduction for 2018 has risen to $12,000 for single filers and $24,000 for couples filing jointly. As a result, the Tax Policy Center estimates a 50% reduction in the number of tax returns with itemized deductions. For most tax payers, the sum of mortgage interest, charitable donations, state and local taxes, and other Schedule A items will not exceed the standard deduction. Tax payers who move from itemized to the standard deduction may want to consider the following strategies for charitable contributions.

You could group donations every couple or few years. A couple that historically has given $10,000 to qualified charities each year could decide to gift $20,000 or $30,000 every two or three years. When combined with other itemized deductions the total would then exceed the standard deduction in the year that they make the bunched contribution. The amount above the standard deduction would result in a reduction in taxable income. This couple would take the standard deduction in non-bunched contribution years.

The grouped contributions could be made directly to your preferred charities or indirectly through a Donor Advised Fund. If you make the bunched contributions directly to your favorite charities, then these charities would only receive a gift from you every two or three years. As an alternative, you can make the bunched charitable contrition to a Donor Advised Fund and then direct the Fund to make annual contributions to your favorite charities. Charles Schwab and Fidelity Investments offer this type of fund that can accept contributions of cash and securities, and provide the opportunity for tax-free growth until you recommend grants to IRS-qualified public charities.

Donors with individual retirement accounts (IRAs) who are 70½ or older may benefit from another good strategy. Many can benefit from contributing up to $100,000 of IRA assets directly to one or more charities. The gifts count toward the Minimum Required Distribution without resulting in taxable income to the owner.

We can provide you with more guidance about bunching your contributions, Donor Advised Funds and making charitable gifts from your IRA. Please let us know if you would like to explore these options for charitable donations.

[1] Laura Saunders, Richard Rubin, Guide to the New World of Taxes, Wall Street Journal, February 2018