Consider tax law changes when making charitable gifts

Personal Finance

YOU PROBABLY noticed the new tax laws that accompanied tax reform in 2018 made some changes to your itemized and standard deductions. Some itemized deductions were eliminated or limited, although the standard deduction increased.

One significant area affected by tax reform involves charitable contributions. While people don't necessarily donate to charity for the tax benefit, it is important to consider how tax reform affected you and what actions you can take to potentially counteract these.

Gifts to qualified charities may be deductible on your federal return. When preparing your federal tax return, you might have found that your total itemized deductions are less than the standard deduction. Hence, you received no benefit from your gift.

Remember, you can usually choose whether to itemize deductions or take the standard deduction. For example, say you are a married couple, both age 67, and have total itemized deductions of $20,000 (excluding anything for charity). The standard deduction for taxpayers in this situation is $27,000 in 2019. Thus, the first $7,000 of charitable gifts provides no tax benefit, as the itemized deduction amount isn't greater than the standard deduction.

If the couple were in a slightly different situation with itemized deductions (excluding charity) of $35,000, they would have already exceeded the bracket was 22%. If they make charitable contributions of $10,000, their income taxes are going to be about $2,200 less, as the charitable deduction does provide them a benefit.

When making charitable contributions, it is important to consider the limitation on the deduction. If your contribution is a gift of cash to a public charity, your deduction is generally limited to 60% of your adjusted gross income (AGI). Gifts to other types of charities may be limited to 30% or 20% of AGI. If you happen to exceed the AGI limit in a year, the excess usually may be carried over to use in future years for up to a maximum of five years. Each year, the charitable amounts need to be reviewed against the AGI percentage limitation for that year.

What we have been leading up to is to consider planning your gifts around the standard deduction amount and the AGI limitation. You might be able to time your charitable gifts so that they occur in one tax year versus the next. This might enable you to maximize your itemized deductions for a single tax year. This can be effective, especially if you believe income is going to be higher in one year versus another.

If you are age 70½ or older and have IRAs, you might consider making a charitable donation from your IRA. The distribution from the IRA must have been one you would have been taxed on had you taken it yourself and go directly to the charity. These types (QCDs). You can exclude up to $100,000 of QCDs from your gross income. The catch is that you aren't entitled to a deduction, but you won't pay income tax on the distribution.

A QCD does count toward your required minimum distribution for the year. This might be especially helpful if you are not benefiting from itemized deductions due to the higher standard deduction amount.

Taxes and charitable gifting can be complicated. We haven't touched on some issues like giving cars and boats. If you want to make a larger gift, we suggest you consult your personal tax adviser to see how to go about doing it and its impact on your taxes prior to the gift.

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Marc A. Hebert, MS, CFP, is a senior member and president of the wealth management and financial planning firm The Harbor Group of Bedford. Email questions to Marc at mhebert@harborgroup. com. Your question and his response might appear in a future column.

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Marc Hebert

standard deduction amount. Let's further assume their tax of distributions are referred to as qualified charitable distributions