Year-End Charitable Gifting

What should you keep in mind as you donate?

Are you making charitable donations this holiday season? If so, you should know about some of the financial "fine print" involved, as the right moves could potentially bring more of a benefit to the charity and to you.

To deduct charitable donations, you must itemize them on I.R.S. Schedule A. So, you need to document each donation you make. Ideally, the charity uses a form it has on hand to provide you with proof of your contribution. If the charity does not have such a form handy (and some charities do not), then a receipt, a credit or debit card statement, a bank statement, or a cancelled check will have to suffice. The I.R.S. needs to know three things: the name of the charity, the gifted amount, and the date of your gift.[1]

From a tax planning standpoint, itemized deductions are only worthwhile when they exceed the standard income tax deduction. The 2017 standard deduction for a single filer is $6,350. If you file as a head of household, your standard deduction is $9,350. Joint filers and surviving spouses have a 2017 standard deduction of $12,700. (All these amounts rise in 2018.)[2]

Make sure your gift goes to a qualified charity with 501(c)(3) non-profit status. Also, visit CharityNavigator.org, CharityWatch.org, or GiveWell.org to evaluate a charity and learn how effectively it utilizes donations. If you are considering a large donation, ask the charity involved how it will use your gift.

If you donated money this year to a crowdsourcing campaign organized by a 501(c)(3) charity, the donation should be tax deductible. If you donated to a crowdsourcing campaign that was created by an individual or a group lacking 501(c)(3) status, the donation is not deductible.[3]

How can you make your gifts have more impact? You may find a way to do this immediately, thanks to your employer. Some companies match charitable contributions made by their employees. This opportunity is too often overlooked.

Thoughtful estate planning may also help your gifts go further. A charitable remainder trust or a contract between you and a charity could allow you to give away an asset to a 501(c)(3) organization while retaining a lifetime interest. You could also support a charity with a gift of life insurance. Or, you could simply leave cash or appreciated property to a non-profit organization as a final contribution in your will.[1]

Many charities welcome non-cash donations. In fact, donating an appreciated asset can be a tax-savvy move.

You may wish to explore a gift of highly appreciated securities. If you are in a higher income tax bracket, selling securities you have owned for more than a year can lead to capital gains taxes. Instead, you or a financial professional can write a letter of instruction to a bank or brokerage authorizing a transfer of shares to a charity. This transfer can accomplish three things: you can avoid paying the capital gains tax you would normally pay upon selling the shares, you can take a current-year tax deduction for their full fair market value, and the charity gets the full value of the shares, not their after-tax net value.[4]

You could make a charitable IRA gift. If you are wealthy and view the annual Required Minimum Distribution (RMD) from your traditional IRA as a bother, think about a qualified charitable distribution (QCD) from your IRA. Traditional IRA owners age 70½ and older can arrange direct transfers of up to $100,000 from an IRA to a qualified charity. (Married couples have a yearly limit of $200,000.) The gift can satisfy some or all of your RMD; the amount gifted is excluded from your adjusted gross income for the year. (You can also make a qualified charity a sole beneficiary of an IRA, should you wish.)[4,5]

Do you have an unneeded life insurance policy? If you make an irrevocable gift of that policy to a qualified charity, you can get a current-year income tax deduction. If you keep paying the policy premiums, each payment becomes a deductible charitable donation. (Deduction limits can apply.) If you pay premiums for at least three years after the gift, that could reduce the size of your taxable estate. The death benefit will be out of your taxable estate in any case.[6]

Should you donate a vehicle to charity? This can be worthwhile, but you probably will not get fair market value for the donation; if that bothers you, you could always try to sell the vehicle at fair market value yourself and gift the cash. As organizations that coordinate these gifts are notorious for taking big cuts, you may want to think twice about this idea.[7]

You may also want to make cash gifts to individuals before the end of the year. In 2017, any taxpayer may gift up to $14,000 in cash to as many individuals as desired. If you have two grandkids, you can give them each up to $14,000 this year. (You can also make individual gifts through 529 education savings plans.) At this moment, every taxpayer can gift up to $5.49 million during his or her lifetime without triggering the federal estate and gift tax exemption.[8]

Be sure to give wisely, with input from a tax or financial professional, as 2017 ends.

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Citations.

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