Charitable Giving: Thinking Outside the Box

As a CPA, I am often asked about tax advantageous ways to give to charities. One of my favorite recommendations to an individual is to contribute appreciated stock, bonds or mutual funds which you have held more than a year. If an individual contributes stock which has appreciated in value since the initial purchase, the individual may deduct the value of the stock at the time of the contribution as an itemized deduction and does not have to pay capital gains tax on the increase in value.

Here is an example of what you may save:

	Option 1: Sell Stock and donate net proceeds	Option 2: Donate stock directly to charity
Current Fair market value of stock:	$40,000	$40,000
Cost basis of stock	$25,000	
Long-term capital gains tax paid	$3,645	
Donation to charity	$36,355	$40,000
Tax savings on deduction	$12,106	$13,320
Net Tax savings	$8,461	$13,320
Actual cost of donation	$31,539	$26,680

Assumptions:
(1) Long term capital gains rate used of 15% federal and CA state tax of 9.3% for a combined rate of 24.3%.
(2) Ordinary income bracket of 24% and CA state tax of 9.3% for a combined rate of 33.3%.
(3) Federal tax benefit of CA state tax deduction not considered due to potential deduction limitation.

For this transaction to be advantageous, the taxpayer must be able to itemize their deductions. In 2018, the standard deduction for single filers will be $12,000 and $24,000 for joint filers.

One rule to remember here is that the deduction is limited to 30% of your adjusted gross income (AGI). This differs from a 60% limit for donations of cash and short-term property. You can still carry forward unused deductions for five years.

Is there any other way to take a charity deduction if you cannot itemized? Yes, if you are required to take a minimum distributions (RMD) from your IRA or retirement plan account because you are 70 ½ or older. By donating your RMD, you will not be required to recognize that amount as income in the current year, resulting in an “above the line” deduction for your contribution. This could lower the amount of social security that will be taxable. This could also be beneficial if the additional income will cause an increase in your Part B and Part D Medicare premiums. It is important that the contributions be transferred directly from your retirement account to the charity. Don’t wait until the last minute. If you miss contributing by December 31, 2018, you will have a 50% penalty for not having taken your RMD.

The tax aspects of charitable giving can be complex and differ depending on your circumstances. It is always a good idea to consult your tax professional before implementing a giving plan.

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Denise has more than 30 years of experience in the accounting and finance profession, including over 20 years in public accounting and 10 years in private industry as a small business owner.

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