This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit https://www.djreprints.com.

https://www.wsj.com/articles/making-year-end-donations-get-the-most-tax-bang-for-your-charity-buck-11639132209

TAX REPORT

Making Year-End Donations? Get the Most Tax Bang for Your Charity Buck

New rules for 2021 provide extra tax deductions for charitable giving. But some older rules are worth reviewing too. Here are charitable-deduction strategies to consider before the year ends.

By

Laura Saunders Follow

Dec. 10, 2021 5:30 am ET

Dec. 31 is the last day for individuals to make tax-deductible charitable donations for 2021.

Congress has made two key changes to enhance tax breaks for giving during the pandemic that expire after this year. One allows millions of taxpayers who wouldn't normally get a tax break for donations to deduct up to $300 per single filer and $600 per married couple filing jointly. The other allows a full deduction this year for donors making gifts up to 100% of their income, instead of a partial one.

These changes, plus this year's surge in the stock market and cryptocurrency values, make it a good time for charitably inclined taxpayers to focus on getting the most bang for their donation buck via tax-efficient moves.

“People who are going to make charitable donations need to consider the myriad options Congress has provided, because that can make a big difference in what the charity receives and how much you owe in taxes,” says Mark Luscombe, principal federal tax analyst for Wolters Kluwer Tax & Accounting.

Here’s one simplified example: Say Jack is a high-earning donor who has a taxable investment account with $5,000 of long-held stock or cryptocurrency that he bought for $2,000, and he wants to donate $5,000 to a favorite charity.

If Jack sells his stock or crypto, he’ll owe federal tax of 23.8% on his $3,000 long-term gain, leaving him with less than $4,300 to donate and deduct. If he gives the stock directly to the charity, he won’t owe capital-gains tax, and he’ll get a deduction for the full $5,000. The charity will typically sell the shares and pocket the $5,000.

To be sure, Congress has added numerous limits and strict requirements for taxpayers seeking breaks for charitable giving. Typically the donation must be made to a qualified charity, and donors can’t deduct the portion of a contribution that provides a benefit to them, such as the cost of a tote bag stuffed with goodies.

Before taking the deduction, many donors must also have a written notice from the charity detailing the gift. The good news is that this year’s last-minute donors don’t need proof of their donation until tax-filing time in 2022.

With the end of the year approaching, here’s more about charitable-deduction strategies. For additional information, see IRS Publication 526, Charitable Contributions.

Cash donations

Just for this year—unless Congress extends the law—taxpayers who don’t itemize deductions on Schedule A can deduct cash donations of up to $600 for

joint filers and $300 for single filers. “Cash” includes donations made by check, credit or debit card and electronic funds transfer, among others.

This change offers a benefit to the great majority of tax filers who don’t itemize deductions, including more than 30 million who have switched to the standard deduction since the 2017 tax overhaul.

SHARE YOUR THOUGHTS

How have you changed your approach to charitable giving this year? Join the conversation below.

The $300/$600 deduction for non-itemizers is “below the line,” so it reduces taxable income but not adjusted gross income. The donations must also be made directly to a qualified charity other than a donor-advised fund.

What about givers who don’t itemize but donate IRA assets through so-called qualified charitable distributions, as discussed below? If they make separate donations in cash, they can still take a deduction up to $300 (single filers) or $600 (joint filers) for that.

Also just for 2021, taxpayers who itemize can benefit from a much larger deduction for cash donations—up to 100% of adjusted gross income. Ordinarily donors can deduct cash contributions only up to 60% of income, although they can deduct the excess over five years. These donations can’t be to donor-advised funds.

Donations of appreciated stock

As detailed earlier, this benefit can allow owners of appreciated, publicly traded shares held for longer than a year to donate the shares to a charity, avoid capital-gains tax on the appreciation, and deduct the fair market value as a charitable donation.

Lawrence Katzenstein, an attorney specializing in charitable planning with Thompson Coburn in St. Louis, urges donors to get stock to their chosen charities as soon as possible.

“If you wait until Dec. 31, that may be too late. At least check with your broker to determine how quickly the firm can make a transfer,” he says.

IRA asset donations

This benefit, called a QCD or qualified charitable distribution, permits owners of traditional IRAs who are 70½ or older to donate account assets totaling up to $100,000 a year directly to one or more charities. If the saver is 72 or older, the donations can count toward their required annual payout from the IRA.

For charitably inclined IRA owners—especially those taking required payouts—QCDs can be a smart move. While there’s no deduction for the donation, the withdrawal doesn’t count as income, and that can help lower both income taxes and income-based Medicare premiums based on income. And donors can receive this charitable tax break even if they take the standard deduction.

QCDs may not be made to donor-advised funds.

Cryptocurrency donations

As with appreciated stock, donations of crypto held longer than a year in a taxable account can also provide a deduction for its fair market value, while no tax is due on the appreciation.

One caveat: Mr. Katzenstein notes that unlike with stock, donors will need a formal, qualified appraisal of their donation if they want to deduct more than $5,000 of crypto. “This requirement is likely to trip up a lot of crypto donors,” he says.

Bunching donations

Some taxpayers who claim the standard deduction following the 2017 tax overhaul can still reap a charitable tax break by “bunching” more than one year of charitable donations.

For example, say a married couple donates $10,000 a year. They have paid off their mortgage, so their total Schedule A deductions—state and local taxes (SALT) capped at $10,000 per return plus the $10,000 of donations—come to less than the standard deduction of $25,100 for joint filers for 2021. That means they don’t get a tax break per se for their donations, other than the $600 allowed by Congress for 2021.

If this couple shifts their donations so that they give $20,000 one year and nothing the next, they will have a total of $30,000 in Schedule A deductions every second year. Itemizing for those years will yield a charitable tax break, and they’ll deduct more than $25,000 in the other years due to the standard deduction.

Note: The strategy’s math could change if Congress expands SALT deductions, which lawmakers have been discussing.

Donor-advised funds

These popular charitable-giving accounts, which have seen huge growth in recent years, offer donors the ability to contribute cash, stock, cryptocurrencies or other property to a subaccount of an umbrella charity and take a charitable deduction in the year of the gift. The umbrella charity typically sells the asset to fund the donor’s account.

Later on, the donor can recommend amounts for distribution to specific charities. There’s no tax break at that point, but account assets can be invested and grow tax-free until then.

DAFs are often a useful tool for donors who want to give part or all of a windfall and deduct it in a year when income is high but who also need time to choose

charity recipients. Other donors use them to bunch contributions, or to hold many smaller gifts they want to combine into one large donation. But check the account fees.

MORE TAX REPORT

- A Couple Stored IRA Gold at Home. They Owe the IRS More Than $300,000. **December 3, 2021**
- Get These 2021 Tax Breaks Before They're Gone **November 19, 2021**
- Why the Billionaires' Tax Matters to You, Too **November 5, 2021**
- The Death of a Spouse Is Hard. Taxes Make It Harder. **October 29, 2021**
- Is Your Flooded Basement Tax Deductible? Congress Will Decide **October 15, 2021**

Write to Laura Saunders at laura.saunders@wsj.com

Appeared in the December 11, 2021, print edition as 'Get Bang for Your Charity Buck.'

Copyright © 2021 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit https://www.djreprints.com.