Remaining Charitable with the New Tax Code

By: Eric Matsko, CFP® *June 2019*

2018—the first year of the newly administered tax code. While some of us were pleasantly surprised this past April, others of us not so much. A common reaction from our clients occurred with the use of the ***standard deduction*** for the first time (or at least the first time in a long time). For those of you who were always itemizing your deductions in the past, the standard deduction may have been a bit foreign, and it also may have raised some critical questions. Before we get to those questions, it's important to understand how we got here. When you look at the standard deduction, it has nearly doubled for every filing status.

		2018	2019
Single	$6,350 to	$12,000	$12,200
Married	$12,700 to	$24,000	$24,400
Head of Household	$9,350 to	$18,000	$18,350

The impact of this change was felt mainly by taxpayers who were itemizing their deductions. With the combination of a higher standard deduction, and the new limits being applied to SALT (State, Local, and Real Estate Taxes), it was no longer worthwhile to itemize.

One of the most common questions we have heard from clients who were itemizing their deductions but now no longer eclipse the new higher standard deduction was,

"What about my charitable contributions?"

While we cannot change the new tax code, what we ***can*** do is ***plan*** around it.

First and foremost, the charitable contributions you make are still being made solely to support the causes you hold near and dear. We are just keeping an eye on an additional tax benefit they could provide. While there are other strategies beyond what I will discuss, the two most commonly used are called ***"QCD"*** and ***"bunching."***

Let's start with the ***"QCD"*** or ***Qualified Charitable Distribution***. This strategy is for taxpayers that are of Required Minimum Distribution (RMD) Age. This special age of 70½ is when you are required by law to begin minimum distributions (RMDs) from your IRA, SEP IRA, SIMPLE IRA, or retirement plan accounts.

The ***QCD*** strategy works like this: as opposed to making your donations through your checking or savings accounts, you

transfer them directly from the retirement accounts that I just mentioned. By contributing directly from your retirement account, you can treat the donation as a ***Qualified Charitable Distribution***. These ***QCDs*** can be sent in similar fashion (weekly, monthly, annually, etc.), but they allow you to remove income from your tax return that you are otherwise required to take, resulting in a direct tax savings to you. Doing so could also lower the taxable portion of your Social Security benefits, as well as lessen the likelihood of paying higher Medicare Part B premiums.

Now when April 2020 rolls around, you will still need to report the whole RMD, but you will only enter as taxable what you received, not the charitable distribution. Another thing to keep in mind if you do not self-prepare your taxes, the tax reporting document may not show this charitable distribution separately, so be sure to let your tax preparer know about it.

The second strategy of ***"bunching"*** is much simpler, and it's intended more so for those of you who have not reached RMD Age. Since you cannot take advantage of the QCD, what you can do is ***"bunch"*** your contributions. For example, this year, you can double or triple the amount you normally donate in a given year. then skip the next year or two. Or, you can just donate smaller amounts, knowing that you just contributed more than normal for one year. This strategy allows you to use the full doubled or tripled contribution as an itemized deduction to push you over the new standard deduction for the year it was made, again, resulting in a tax savings to you.

There are more options beyond what I have discussed regarding charitable giving. Consider reaching out to a CERTIFIED FINANCIAL PLANNER™ and tap into their knowledge of the topic to help you research what would work best for your specific situation.

This article is for financial planning purposes. Please consult with a qualified tax professional for advice on your specific situation.