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Year-End Charitable Giving



With the holiday season upon us and the end of the year approaching, we pause to give thanks for our blessings and the people in our lives. It is also a time when charitable giving often comes to mind. The tax benefits associated with charitable giving could potentially enhance your ability to give and should be considered as part of your year-end tax planning.

Example(s): Assume you are considering making a charitable gift equal to the sum of \$1,000 plus the income taxes you save with the charitable deduction. With a 28% tax rate, you might be able to give \$1,389 to charity ($\$1,389 \times 28\% = \389 taxes saved). On the other hand, with a 35% tax rate, you might be able to give \$1,538 to charity ($\$1,538 \times 35\% = \538 taxes saved).

A word of caution

Be sure to deal with recognized charities and be wary of charities with similar sounding names. It is common for scam artists to impersonate charities using bogus websites and through contact involving e-mails, telephone, social media, and in-person solicitations. Check out the charity on the IRS website, www.irs.gov, using the Exempt Organizations Select Check search tool. And don't give or send cash; contribute by check or credit card.

Tax deduction for charitable gifts

If you itemize deductions on your income tax return, you can generally deduct your gifts to qualified charities. However, the amount of your deduction may be limited to certain percentages of your adjusted gross income (AGI). For example, your deduction for gifts of cash to public charities is generally limited to 50% of your AGI for the year, and other gifts to charity may be limited to 30% or 20% of your AGI. Charitable deductions that exceed the AGI limits may generally be carried over and deducted over the next five years, subject to the income percentage limits in those years. Your overall itemized deductions may also be limited based on the amount of your AGI. And make sure to retain proper substantiation of your deduction for a charitable contribution.

Year-end tax planning

When considering making charitable gifts at the end of a year, it is generally useful to include them as part of your year-end tax planning. In general, you have a certain amount of control over the timing of income and expenses. You generally want to time your recognition of income so that it will be taxed at the lowest rate possible, and time your deductible expenses so they can be claimed in years when you are in a higher tax bracket.

For example, if you expect that you will be in a higher tax bracket next year, it may make sense to wait and make the charitable contribution in January so that you can take the deduction next year when the deduction results in a greater tax benefit. Or you might push the charitable contribution, along with other deductions, into a year when your itemized deductions would be greater than the standard deduction amount. And if the income percentage limits above are a concern in one year, you might consider ways to move income into that year or move deductions out of that year, so that a larger charitable deduction is available for that year. A tax professional can help you evaluate your individual tax situation.



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