FINANCIAL FOCUS

You Can Still Gain Tax Benefits from Charitable Donations

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Like most people, you probably know several organizations worthy of your philanthropy, and you may well have contributed to them, perhaps on an annual basis. In the past, when you've made charitable donations, it's been a win-win: You were able to provide support to a worthy organization and you received some valuable tax benefits. But with the passage of the new tax laws, things may have changed considerably for many people. Are there still tax benefits to making a charitable donation?

Here's some background: Previously, you may have been able to deduct your charitable donations if you itemized deductions on your income tax return. So, for example, if you were in the 25 percent tax bracket and you gave $1,000 to a qualified charity, you may have been able to deduct $250.

But under the new tax laws, the standard deduction is almost doubled for 2018, to $24,000 for joint filers, and $12,000 for single filers. As a result, far fewer people are likely to itemize their deductions. If you're in this group, you may find that you have less incentive, at least for tax reasons, to make charitable gifts.

However, receiving a tax deduction is not the only tax benefit of making a charitable gift. If you own an IRA and you're 70 ½ or older, you generally must start taking withdrawals – technically called required minimum distributions, or RMDs – from your traditional IRA. (Roth IRAs are not subject to RMDs until after the death of the owner.) If instead of withdrawing the money, the IRA owner decides to transfer the funds directly to a qualified charity, the distributed amount can be excluded from the IRA owner's income. So, in effect, you can get a sizable tax benefit from your generosity. In fact, you may be able to move up to $100,000 from your IRA per year to an eligible charity and have it count as your RMDs, even if the amount donated is more than the required minimum withdrawal.

Even if you aren't 70 ½ yet, you might still gain some tax benefits from certain types of charitable donations. When you itemized, and you donated appreciated stocks, you were generally allowed a charitable deduction for the full fair market value of the stocks on the date of the transfer, even if your original cost was only a fraction of that value. Now, if you don’t itemize, that charitable contribution is not deductible, but you can still avoid the capital gains taxes you’d have to pay if you sold the securities, rather than donating them.

Finally, you could name a qualified charity as a beneficiary of your IRA or 401(k). This can allow the assets to pass free of income tax to the charitable group.

Given the increased standard deduction resulting from the new tax laws, many charitable groups are worried about the potential loss of contributions. Nonetheless, as we’ve seen, you can still find ways to get some tax benefits from your own charitable gifts. And you’ll still get the same satisfaction from supporting a good cause.