

GIVE WISER: HOW NEW 2020 TAX LAW AFFECTS YOU

The 2020 CARES Act, has important implications for charitable giving. Make sure you are getting the most benefits for 2020 tax season.

HERE IS TOP 10 WAYS TO GIVE WISER IN 2020:

1

DEDUCT \$300 WITHOUT ITEMIZING

This year only! You can deduct \$300 of charitable gifts without itemizing. The \$300 limit is one per tax filing unit. (So, married couples filing jointly don't get \$600.) This must be a cash gift paid to an operating nonprofit. (So, not to a donor advised fund.)

2

DEDUCT UP TO 100% OF YOUR INCOME

This year only! You can deduct up to 100% of your adjusted gross income using charitable gifts of cash. These gifts must go to an operating nonprofit. (So, not to a donor advised fund.)

3

COMBINE A ROTH CONVERSION WITH A DONATION

A Roth conversion moves money from a standard IRA into a Roth IRA. The benefit: all distributions from the Roth IRA are tax free. (Even distributions of future growth are tax free.) The downside: the money moved into the Roth IRA counts as immediate income.

However, this year only, up to 100% of income can be offset by charitable deductions. This includes income created by a Roth conversion. If you already have a multi-year charitable plan or pledge, donating it all this year and combining with a Roth conversion might make sense.

4

MAKE IRA GIFTS @ AGE 70½ +

IRA accounts have no required minimum distribution (RMD) in 2020. But those age 70½ or older can still make gifts directly from an IRA to a nonprofit up to \$100,000. This gift donates pre-tax dollars. The earned income is never taxed because it goes directly to the nonprofit.

5

MOVE YOUR 401K/403B INTO AN IRA ROLLOVER NOW TO PREPARE FOR FUTURE IRA GIFTS

RMDs will return next year for those age 72+. A qualified charitable distribution from your IRA or IRA rollover reduces RMD. It's a great way to give!

To do this with a 401(k) or 403(b), you must first convert the account into an IRA rollover. But conversion requires first taking any RMD from the 401(k) or 403(b). You must pay taxes on that distribution.

You can avoid that by making the conversion this year. There are no RMDs in 2020. So, you can convert your 401(k) or 403(b) into an IRA rollover. And you can do it without paying any taxes, even if you are age 72+. Then, you'll be set up to make future donations from your IRA rollover whenever you want.

6

IRA GIFTS @ AGE 59½ - 70½

IRA withdrawals during this age create no penalties. But they are taxable. However, this year cash gifts can be deducted up to 100% of income. If you are already itemizing deductions this can help offset the tax impact from an IRA withdrawal.

7

BUNCH GIFTS WITH A DONOR ADVISED FUND

The 2018 tax law created much higher standard deductions. Fewer people can use charitable deductions because they aren't itemizing. One way around that is to "bunch" charitable gifts.

Example: A donor puts 5 years' worth of donations into a donor advised fund. The donor takes a tax deduction for the entire amount in that year. Because the deduction is so large, the donor itemizes in that year. In later years, the donor makes gifts to charities from the fund. This creates no tax deduction. But in those years the donor takes the standard deduction instead of itemizing.

Remember: These are just a few ideas to discuss with your tax advisor. They may not apply in your situation.

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IRA BENEFICIARY V. GIFT IN A WILL

Many people like to include a charitable gift in their will to support a cause that has been important in their lives. One tax smart strategy is to leave part of an IRA, 401(k), or 403(b) account to a nonprofit. (It's easy to change account beneficiaries by contacting the financial institution.)

Why is this smart? Because heirs pay income taxes on this money. Starting this year, heirs (except spouses) must take out all funds (and pay taxes) within 10 years of inheriting. But any part left to a nonprofit avoids these taxes. So, if you're leaving anything to a nonprofit, use these accounts first.

9

MAKE A CHARITABLE SWAP: GIVE APPRECIATED INVESTMENTS WITHOUT CHANGING YOUR PORTFOLIO

Donating appreciated assets creates TWO tax benefits. The tax deduction is the same size as a gift of cash. (The asset must have been owned for a year or more.) PLUS, you avoid paying capital gains tax.

With a charitable swap, you donate old shares of stock and immediately purchase new shares in the same company. Your portfolio doesn't change. But the capital gain is removed. (There is no waiting period. Why? Because this is gain property not loss property. So, the "wash sale" rule doesn't apply.)

10

TAKE AN IMMEDIATE DEDUCTION FOR DONATION INHERITANCE RIGHTS TO HOMES OR FARMLAND

Many people like to include a charitable gift in their will. But you can donate the inheritance rights to farmland or a home using a special deed instead. Doing this creates an immediate income tax deduction. Right now, these deductions are large because interest rates are low.

Example: A 55-year-old donor deeds the inheritance rights to \$100,000 of farmland before the end of 2020. The donor gets an immediate income tax deduction of \$90,371. The donor keeps the right to use the property for the rest of his life. It's deductible because, unlike a will, the donor can't change his mind once the gift is made.

To learn how you can apply these tax savings tools to a charitable gift, contact Adele Dietrich at adele@mcdowellsonoran.org or 48.998.7971 x102.



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