IS NOW A GOOD TIME TO CHANGE YOUR CHARITABLE GIVING STRATEGY?

By David Stubblefield, CFP®, CDFA™, Vice President, Senior Financial Planner, and Nicole Rose, JD, Private Client Advisor Associate

The CARES Act brought some changes to encourage charitable giving, but some of the tax rule changes apply only to the 2020 tax year. Whether this is a good time to consider a different giving strategy depends largely on your financial situation. Is your income stable? Do you have several months of emergency cash on hand to support your own expenses? Do you have family members who may need help?

Charity begins at home—and in uncertain times, it's okay to take a more cautious approach with your charitable contributions and where you direct available funds. Here are some points to consider as you ponder this question.

CASH MAY BE KING IF YOUR CHARITY IS AS BIG AS YOUR ADJUSTED GROSS INCOME (AGI).

Previously, cash contributions to a public charity (if you itemized deductions) were capped at 60% of your AGI. In 2020, the CARES Act allows you to deduct up to 100% of your AGI. For example, if your AGI in 2020 is $500,000 and you make cash qualified charitable contributions in the same amount, you won't owe any taxes for the 2020 tax year. If your contributions exceed your AGI, the excess can be carried over for the next five years and will be subject to percentage limitations in the carryover years.

TAKE STOCK OF YOUR STOCKS.

Giving away low basis stock for charitable contributions is usually a win-win scenario for the donor and the charity. The charity can sell the stock tax free to raise cash; the donor gets a tax deduction up to 30% of AGI and avoids the capital gains tax on the stock. In today's market, with many stocks having absorbed market declines, the stocks you wish to pursue this strategy with should be evaluated carefully. Alternatively, if you have stock in a loss position, you might consider selling the stock first, recognizing the loss yourself for your own tax benefit, and then giving the cash to the charity.

NON-ITEMIZERS GET A BREAK.

If you don't itemize and take the standard deduction, you get a $300 ($600 for married) charitable deduction to AGI for qualified charitable contributions (i.e., public charities other than supporting organizations or donor advised funds).

WHAT ABOUT DONOR ADVISED FUNDS AND SUPPORTING ORGANIZATIONS?

They have generally been excluded as places for additional cash contributions. The previous rules of 60% of AGI for cash and 30% of long-term gain on publicly traded stock still apply.

QUALIFIED CHARITABLE DISTRIBUTIONS (QCDS) ARE LIMITED THIS YEAR.

If you're age 70-1/2 or older, QCDs allow you to transfer up to $100,000 each year directly to charity from an IRA or inherited IRA. This distribution counts toward your annual required minimum distribution (RMD) and allows for the amount to be excluded from taxable income. Since RMDs are suspended for 2020, the tax reasons for using the strategy are limited this year. You might utilize this strategy if you only have IRA assets to give or your other types of funds are relatively small compared to your IRA.

KEEP THIS IN MIND...

Just a reminder in this election year: Political donations are not tax deductible. This applies to both sides of the aisle.

Should you change your strategy? Perhaps. A detailed conversation—particularly for large gifts—with your advisors is a must to make sure you're forging the best path.

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David is a financial planner with Commerce Trust Company. He is a member of the financial advisory services team, a dedicated financial planning practice within Commerce Trust that provides objective financial advice to clients. Following a thorough assessment of a client's unique situation and thoughts regarding wealth, David develops holistic and coordinated plans to help clients meet their short-term and long-term goals as well as take full advantage of various planning, tax, and investment strategies along the way. His areas of focus includes planning for financial independence, retirement, divorce, executive compensation, estate preservation, and business succession. David joined Commerce in 1995 and has held positions in private banking, credit analysis, commercial business development, and retail sales. David received his bachelor of science degree in business administration from Southeast Missouri State University. He holds both the CERTIFIED FINANCIAL PLANNER™ and Certified Divorce Financial Analyst™ designations. Additionally, David is a member of the Financial Planning Association and the Institute for Divorce Financial Analysts.

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