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## Guide to Smart Giving, Part 3

By Chad Davidson, Good Fellow CFO

# Unlocking the Tax Benefits of Your Charitable Contributions

Giving to charity isn't just a way to help others; it can also provide valuable tax benefits for you. If you understand how charitable donations work within the tax system, you can maximize the impact of your generosity while lowering your tax bill. In this article, we'll explore the different ways charitable giving can save you money on taxes and how to make the most of these benefits.

## How Charitable Deductions Work

When you donate to a qualified charity, you may be eligible to deduct the value of your donation from your taxable income. This is called a charitable deduction, and it reduces the amount of income the government taxes you on, potentially lowering how much you owe in taxes.

However, there are some rules you need to follow to take advantage of these deductions:

- You must donate to a qualified 501(c)(3) organization. Not all nonprofits are tax-exempt. Only organizations with 501(c)(3) status from the IRS qualify for deductible donations. These include most charitable, educational, religious, and scientific organizations.
- You must itemize your deductions. In order to claim a charitable deduction, you have to itemize your deductions on your tax return. This means listing all of your eligible deductions instead of taking the standard deduction, which is a set amount available to every taxpayer. If your itemized deductions are higher than the standard deduction, itemizing will save you more money.

## Types of Donations That Qualify for a Tax Deduction

Many different types of donations can qualify for a charitable deduction, not just cash. Here are some common forms of donations you can deduct:

1. **Cash donations:** These include money given by check, credit card, or electronic transfer. You can deduct the full amount of your donation, up to 60% of your adjusted gross income (AGI). If your donation exceeds that limit, you can carry the excess deduction forward for up to five years.



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2. **Non-cash donations:** If you donate goods such as clothing, furniture, or household items to charity, you can deduct their fair market value. However, the items must be in good condition or better, and you'll need a receipt from the organization.
3. **Donating appreciated assets:** You can also donate assets like stocks, bonds, or real estate that have increased in value since you purchased them. This can be especially beneficial because you can deduct the full fair market value of the asset without having to pay capital gains taxes on the appreciation.
4. **Qualified charitable distributions (QCDs):** If you're over age 70 ½ and have a traditional IRA, you can make a QCD directly from your IRA to a charity. The amount you donate counts toward your required minimum distribution (RMD) for the year but isn't included in your taxable income, which can lower your tax bill.

### Bunching Donations for Maximum Tax Benefits

In recent years, the standard deduction has increased, which means fewer people itemize their deductions. If you don't regularly give enough to exceed the standard deduction, one strategy you can use is bunching donations.

Bunching involves grouping several years' worth of charitable donations into one year. By doing this, you increase the total amount of your donations for that year, allowing you to itemize your deductions and get a bigger tax break. In the following year, you can take the standard deduction, since you won't be making as many donations.

For example:

- Let's say the standard deduction for your filing status is \$13,850, and your usual charitable donations each year are around \$5,000. Instead of donating \$5,000 every year, you could bunch two years of donations (a total of \$10,000) into one year. Now, your itemized deductions might exceed the standard deduction, allowing you to claim a larger deduction that year.



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### Using a Donor-Advised Fund for Charitable Giving

Another way to maximize your tax benefits is by using a Donor-Advised Fund (DAF). A DAF allows you to make a large contribution to the fund, take the tax deduction immediately, and then decide over time which charities to support.

Here's how it works:

- You contribute to the DAF: You can donate cash, stocks, or other assets to the fund. You'll receive a tax deduction in the year you make the donation, even if you don't distribute the funds to charities right away.
- The DAF distributes the money to charities: When you're ready, you can recommend grants to the charities of your choice from the fund. This gives you flexibility to support the causes you care about over time, while still getting the tax benefit up front.

By using a DAF, you can also bunch donations for tax purposes, but spread out your charitable giving over several years.

### Corporate Matching Gift Programs

Did you know that many companies offer matching gift programs for their employees? These programs allow your employer to match your donations to qualified charities, often dollar-for-dollar, effectively doubling the impact of your contribution.

If your employer offers a matching gift program, you'll need to submit proof of your donation, such as a receipt or donation acknowledgment, to the company. The company will then make its own donation to the same charity in the amount they've promised to match.

Corporate matching gifts don't affect your own tax deduction, but they can significantly increase the total amount of money going to the charities you support.

### Record-Keeping for Charitable Deductions

The IRS has strict rules about documenting your charitable donations, so it's important to keep good records. Here's what you'll need to have on hand to claim your deductions:



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- **Cash donations:** For any donation of \$250 or more, you must get a written acknowledgment from the charity. This should state the amount of your donation and whether you received anything of value in return (such as a meal or gift).
- **Non-cash donations:** You'll need a receipt from the charity showing what you donated and its fair market value. If your donation is worth more than \$500, you'll need to fill out IRS Form 8283. For donations over \$5,000, you may need to get an appraisal.
- **Appreciated assets:** If you donate stocks, real estate, or other valuable items, be sure to get a receipt from the charity and document the fair market value at the time of the donation.

### Conclusion

Charitable giving is a powerful way to make a positive impact on the world while also benefiting from tax savings. By understanding how to maximize the tax benefits of your donations—whether through itemizing deductions, bunching contributions, donating appreciated assets, or using tools like Donor-Advised Funds—you can ensure that your generosity has the greatest possible effect, both for the causes you care about and your financial health.

Taking the time to plan your donations carefully, keep good records, and explore matching gift programs can make your charitable giving even more rewarding for both you and the organizations you support.