Consider Tax-Smart Charitable Gifts

As we enter the annual season of giving, you might be thinking of charities you wish to support. But you also might be wondering how to gain some tax benefits from your gifts.

It used to be pretty straightforward: You wrote a check to a charity and then deducted the amount of the gift, within limits, from your taxes. But a few years ago, as part of tax law changes, the standard deduction was raised significantly, so fewer people were able to itemize deductions. Consequently, there was less financial incentive to make charitable gifts.

Of course, this didn't entirely stop people from making them. And it's still possible to gain some tax advantages, too.

Here are a few tax-smart charitable giving strategies:

• *Bunch your charitable gifts into one year.* If you combine a few years' worth of charitable gifts in a single year, you could surpass the standard deduction amount and then itemize deductions for that year. In the years following, you could revert to taking the standard deduction.

• *Make qualified charitable distributions.* Once you turn 73 (or 75 if you were born in 1960 or later), you must start taking withdrawals from your traditional or inherited IRA. These withdrawals — technically called required minimum distributions, or RMDs — are taxable at your personal income tax rate, so, if the amounts are large enough, they could push you into a higher tax bracket or cause you to pay larger Medicare premiums.

But if you donate these RMDs directly to a qualified charity, you can avoid the taxes. And because these donations, known as qualified charitable distributions (QCDs), will reduce the balance on your IRA, you may have lower RMDs in the future.

Of course, if you need some or all your RMDs to help sustain yourself in retirement, the use of QCDs may not be of interest to you. Keep in mind, though, that you can start making QCDs at 70½, even before you must start taking RMDs. QCDs up to $105,000 can be taken in 2024.

• *Consider a donor-advised fund.* If you're interested in a long-term charitable giving arrangement, you might want to consider establishing a donor-advised fund. You can put many types of assets into this fund, and then direct it to make grants periodically to the charities you've chosen. You get an immediate tax deduction for your contribution, and, if you donate appreciated assets, such as stocks, you'll avoid the capital gains taxes you would have incurred if you simply sold the stocks and then gave the money to the charities. One note of caution, though — your contributions to a donor-advised fund are irrevocable, and once the assets are in the fund, you can't use them for anything except charitable giving.

These strategies — QCDs and donor-advised funds in particular — can be complex and involve several issues of which you should be aware. So, you should consult your tax advisor before taking action. But if any of these techniques are appropriate for your situation, give them some thought — because helping a charitable group and getting tax benefits for doing so is a "win" for everyone.

This article was written by Edward Jones for use by your local Edward Jones Financial Advisor.

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