Benefactor Group Insights

TAX-ADVANTAGED CHARITABLE GIVING IN 2021

Tax-Advantaged Charitable Giving in 2021

For those who take the standard deduction (i.e., non-itemizers)

The $300 above-the-line universal charitable deduction (UCD) has been extended for single filers who do not itemize deductions.

For 2021, this above-the-line deduction is increased to $600 for married couples filing jointly who do not itemize tax deductions.

For those who itemize deductions

The temporary increase allowing deductions up to 100% of adjusted gross income (AGI) has been extended into 2021 for qualified cash contributions. This temporary increase expires December 31, 2021.

Individual taxpayers who itemize tax deductions and contribute cash to a public charity, or a limited number of private foundations, may deduct up to 100% of their AGI.

The 100% limitation also considers 2021 contributions of long-term appreciated assets, such as stock or real estate, where the deduction is limited to 30% of the donor's AGI. For example, a donor can deduct up to 30% of AGI for gifts of appreciated stock and then make cash gifts up to 70% of AGI to reach the 100% limit of the deduction.

Individual taxpayers can carry forward any charitable contributions more than 100% of AGI for five years

Limits on charitable deductions

The UCD and 100% AGI limits apply only to cash contributions.

Donations made to family foundations, corporate foundations, private non-operating foundations, 509(a)(3) supporting organizations, or donor advised funds, as well as gifts to split interest trusts like charitable remainder and lead trusts or charitable gift annuities, do not qualify for these temporary increased deductions.

It's complicated; consult with a tax advisor.

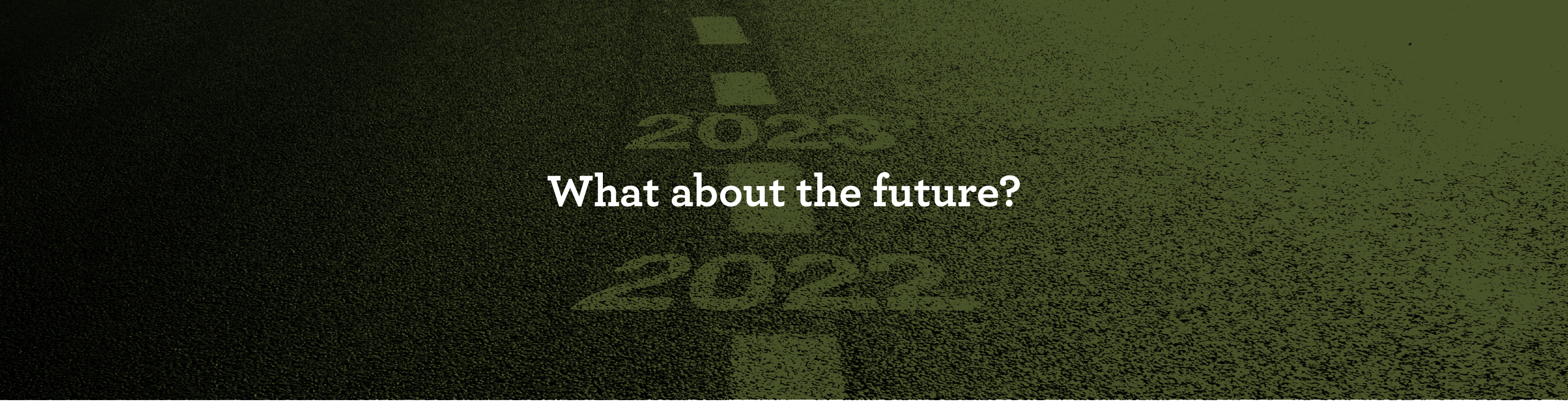
For businesses

In 2021, corporations may continue to deduct charitable gifts up to 25% of the corporation's taxable income (increased from 10%). Given that overall corporate giving has trended at less than 1% of corporate pre-tax profits, this is not likely to make a significant impact.

For those who wish to give retirement assets

Individuals over age 70½ are allowed to donate up to $100,000 from their IRA directly to public charities annually, without taking the distribution into taxable income. This is called a qualified charitable distribution (QCD). Because the required minimum distribution has been reinstated for those over the age of 72, this might be a good tax strategy for many donors.

IRA owners can leverage the limited deduction of 100% of their AGI for cash charitable contributions described above. This effectively affords individuals between the ages 59½and 70 benefits similar to a QCD. Donors in this age bracket can take a cash distribution from their IRA and contribute the cash distribution to charity, and may completely offset tax resulting from the distribution by taking a charitable deduction for up to 100% of their AGI for the tax year.



What about the future?

Budgetary pressures—from the expanding national debt to the cost of COVID relief—are forcing policymakers to look for ways to reduce spending and increase tax revenue. These efforts may create risks—or opportunities—for charitable giving.

A cap of 28% on itemized deductions

One current proposal includes a cap of 28% on itemized deductions, including gifts to charities. In 2021 donors can deduct up to 100% of their adjusted gross income, and under normal circumstances up to 60% for gifts of cash and 30% for gifts of appreciated assets they have owned for over one year. In the past, donors have responded to anticipated changes in tax law by accelerating their giving, especially if they feel the current environment provides more tax advantages. But after that initial bump in giving, this could result in a long-term significant decline.

Estate taxation

Changes to estate taxation are also under consideration, including a reduction in the amount that is exempt from taxation, and elimination of stepped-up basis (meaning that heirs could incur taxes from capital gains based on the original value of the asset, not the value at the time of the inheritance). These proposals could increase giving, as donors seek to discard highly appreciated assets during their lifetime and through their estate by giving them to charity. This could also fuel a huge increase in life-income planned gifts such as charitable remainder trusts, charitable gift annuities, and pooled income funds. However, it could also diminish the “great intergenerational transfer of wealth” and diminish the next generation’s ability to give.

Universal Charitable Deduction

Others are working to increase and extend the universal charitable deduction, allowing up to $4,000 single/$8,000 joint charitable deduction for non-itemizers. According to a study by the Lilly Family School of Philanthropy at Indiana University, this could increase charitable giving by $17 billion and the number of donating households by 7 million.

This information is general and educational in nature and should not be relied upon as legal or tax advice. Benefactor Group does not provide legal or tax advice. Donors are encouraged to discuss their personal circumstances with their own advisors.

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