Pomegranate Financial

Refresh & Simplify
Your Financial Life

Newsletter

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Charitable Contributions | Taxes | Financial Planning

Since it is the month of GIVING - we can dive into the strategies of giving. Knowing the financial & tax strategies of giving may change how much, when, and how you give.

First off, let's say you itemize your deductions. What does that mean?

It means you add up your property taxes, state income tax, mortgage interest, medical expenses (with many exceptions), and charitable contributions. If the total is more than the standard deduction ($25,900 for married) then all those types of expenses help you. If it is not, then you take the standard deduction.

Therefore, if you know those expenses will add up to more than the standard deduction, then all of those charitable donations are helping.

- Typically, you either have a large home and pay a lot of mortgage interest

Or

- You have high income AND pay a lot in state taxes which are actually

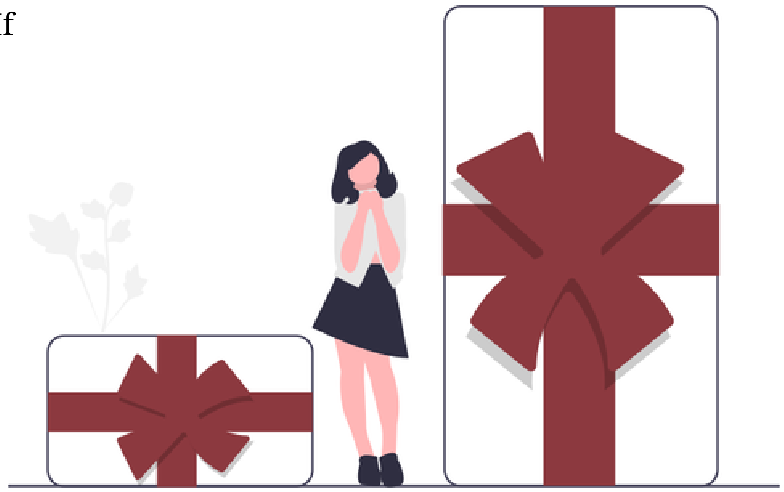
capped at $10k.

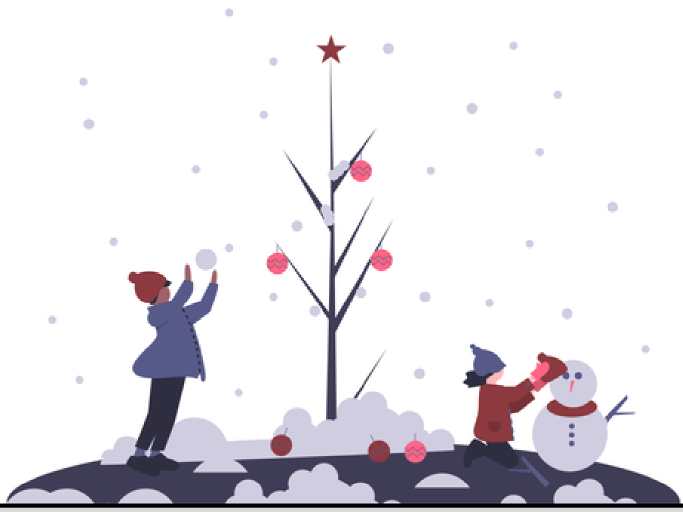
Or

- You give a lot to charity!

Really it is a combination of all three!

Please Note:
Giving to Go-FundMe fundraisers, directly to individuals, or those not qualified as a 501(c)(3) does not qualify as a tax deductible donation! If you add a tip to Go-Fund Me, then that would count, but not the fundraiser itself.





Please Note:

Non-Cash giving does not provide any tax benefit if you take the standard deduction. If it is more than $500 and you itemize, then you have to specify the items, appraisal, organization, and value of each item on your tax return.

Timing Your Tithe/Charitable Donations

Those who make large donations or tithe could potentially benefit by strategizing when they tithe. For example, if you tithe 10% on $100,000 of income, then each year that is $10,000 donated. $10k combined with your mortgage interest, property taxes, and state income tax is probably NOT enough to itemize your deductions.

That means none of the $10,000 is helping you on your tax return (if filing Married Joint).

However, if you save up your $10k for a year, donate it on January 1st of next year AND then start making your monthly donations that same year, then your total charitable contributions would equal $20,000. Add in your mortgage interest, property taxes, and state income tax and you are very likely to itemize your deductions and therefore lower your taxes much more than if you had taken the standard deduction.

This strategy then results in itemizing your deductions every other year.

As you notice, this also requires a bit more work in saving your donations, planning, and calculating your deductions. But the strategy could save you up to $2,200 or more.

Donating Stocks, Funds, and Property

There are times when it makes sense to donate your investment directly to the charity, rather than selling it. For example, if you worked for Apple and had Apple stock with a large gain then instead of selling the stock and incurring capital gain taxes you could donate the stock to a 501(c)(3) charity, receive a tax deduction for it and avoid the taxes. This particularly makes sense for those who already planning on making a donation.

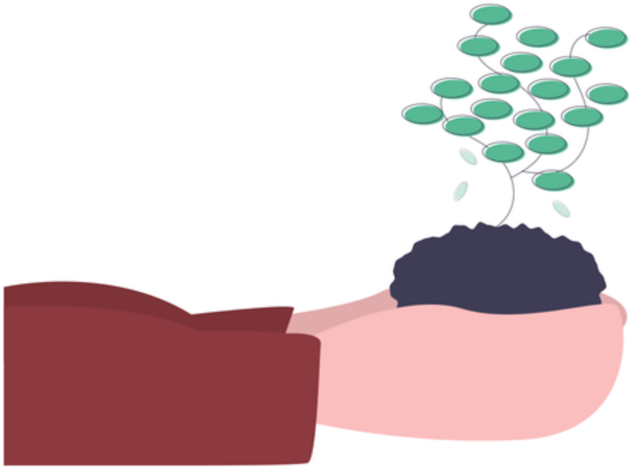
Another strategy is to donate the funds in your IRA to a 501(c)(3). You can do this to meet the RMD: Required Minimum Distribution if you are over 72/73. You can also do this to lower the value in your IRA which helps lower future RMDs if you are over 70.5. It also keeps your Adjusted Gross Income lower without having to itemize your deductions.

You can donate real estate to a donor advised fund or a 501(c)(3) charity that could accept/use the property. This would help you itemize your deductions and create large tax deductions. Of course it has to make sense for you personally to want to donate the real estate property.

Many of these strategies have various requirements - please consult with me or a tax advisor before attempting to process on your own. The higher your income, the more it can make sense to implement these strategies.

What is a DAF: Donor Advised Fund?

A DAF or Donor advised fund is a charitable investment account. You donate to the fund and receive a tax deduction for it. That money can then be invested by you. You can then decide who AND when to donate the funds. When donating the funds to the charity you do not receive an additional tax benefit, only when you initially donate to your DAF. You then have a lot of control of how much, when, and to who you donate the funds rather than feeling constrained at the end of each year to donate to a specific charity.



In summary, GIVING can provide some financial & tax planning opportunities. But often these require careful and calculating decisions in order for to properly benefit you.

- **If you tithe or donate often and in large amounts, then consider timing your donations. This may allow you to itemize your deductions and receive a larger deduction in one year.**
- **If you are in the right tax bracket, have pre-tax retirement money (ex. IRA) or large capital gains in stocks, then you could gift the funds/stocks directly to a charity.**
- **For more complexity in giving and taxes - research Charitable Trusts!**

As always please reach out with any questions.

Blake Jones, CFP®, EA
PomegranateFinancial.com
PomegranateFinancial@gmail.com