MIDLANDS BUSINESS TRENDS

Giving to Charity

by Jon Robertson

People donate to charities for a variety of reasons. Some people give for religious or moral reasons, some people for the joy of giving, and others give to charities to make their community a better place. You can support charities in different ways: by giving money or appreciated assets such as stock or real estate; by donating food or clothes; and by volunteering.

The government provides tax incentives for charitable contributions. It can be easy to create a plan that maximizes the tax benefits from making a donation, but you must follow some rules if you want to receive the tax benefits from your deduction. First, you must itemize your deductions rather than taking the standard deduction when you file your tax return. In order to itemize, your total deductions (including charitable contributions, mortgage interest, property taxes, state income taxes, and other expenses) must be greater than $5,700 if you are single or married filing separately; $8,400 if you are head of household; or $11,400 if you are married and filing jointly. You can also deduct charitable contributions up to 50% of your income if you donate cash, or 30% of your income if you donate appreciated assets. If your charitable contribution is larger than the above, you may carry over the remaining deduction to offset future income.

Many people like to give appreciated assets such as stock to charities because of the large tax advantage. You can donate stock to a charity and deduct the market value of the stock at the time of the donation, and the charity can then sell the stock without paying capital gains taxes. For example, if you sold stock worth $1,000 for which you only paid $100, you would have to pay taxes on the $900 in appreciation, and after you pay taxes, you would only receive $820. Instead, you could give the stock to a charity and deduct the entire $1,000 contribution. The charity would then sell the stock for $1,000 and not have to pay income taxes.

It is often a good idea to make a large monetary contribution to a charity during an unusually high income year. Some examples include selling a business, earning a large bonus, or converting a traditional IRA to a Roth IRA. At this time it might be wise to consider a large charitable donation to offset some of the income. Donating a large sum of money to an individual charity makes some people uncomfortable. One way to avoid having a charity receive too much money in one year is to set up an account called a donor advised fund. With a donor advised fund, you make the donation to the fund and receive the tax deduction during the year of the contribution. Then, you can distribute the money to individual charities from the account over a period of time. Donor advised funds also work well for individuals who want to make charitable giving a part of their estate plan. Central Carolina Community Foundation, Schwab, Fidelity and other brokerage firms offer donor advised funds.

It is often confusing to know which charities will make the best use of your donation. The South Carolina Secretary of State (www.scsos.com) is a helpful resource and releases its annual “Scrooges and Angels” list to illustrate the percentage of a charity’s revenue that is applied to its program goals. You can also seek advice from financial, tax, and legal advisors who often have a good understanding of quality local charities.

Besides monetary contributions, you can donate goods such as food or clothing. Be sure to keep your receipts so that you can justify the amount of the deduction if you are ever audited. Stay within reasonable amounts when you are valuing the gifts of used property to give.

Another excellent way to help a charity is to give of your time. Charities are always looking for volunteers and there is no better way to get involved in and to understand an organization than by volunteering.

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