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BLUME CAPITAL MANAGEMENT
2019 Tax Considerations for Charitable Giving

As the 2018 tax season begins to wind down, you may want to consider tax strategies that could save you money in 2019 and beyond. Specifically, with the near doubling of the standard deduction from 2017 to 2018, many taxpayers will benefit from reviewing their approach for charitable donations. The higher standard deduction, together with the cap on deductions for state and local taxes, means that many tax filers who have historically “itemized” write-offs will switch to using the standard deduction.

Because of these tax law changes, a donor-advised fund, like Schwab Charitable, can play an increasingly important role in tax-efficient charitable giving. Alternatively, if you or a loved one will be 70 ½ or older in 2019, giving directly from an individual retirement account can be a superior strategy (depending on the availability of taxable appreciated assets that could otherwise be donated).

How the standard deduction impacts charitable giving

The standard deduction is the amount you subtract from income if you don’t itemize write-offs for mortgage interest, charitable donations, state taxes, and the like. For 2019, the standard deduction increases to \$12,200 for singles (\$13,850 if age 65 or older) and \$24,400 for couples filing jointly (\$27,000 if both spouses are age 65 or older).

Taxpayers who use the standard deduction (and, therefore, will not benefit from itemizing charitable contributions) can still gift appreciated securities from taxable accounts, and other appreciated non-cash assets, to avoid capital gains tax. For filers who have itemized write-offs that far exceed the applicable standard deduction, the tax overhaul generally does not impact their charitable giving strategy.

Why consider “bunching” charitable donations

Tax filers whose itemized deductions are close to the applicable new standard deduction should consider adopting a strategy of concentrating or “bunching” donations in a single tax year. For the year in which large charitable gifts are made, the taxpayer would itemize to get a tax break in excess of the standard deduction. In the other years, the standard deduction would be used. With this “bunching” strategy, a donor-advised fund, like Schwab Charitable, can be a useful option.

With a Schwab Charitable* account you can give a large amount in a single year, and itemize the deduction in the year of the gift, in order to exceed the standard deduction threshold or to coincide with

a year of elevated income (e.g., sale of a home). You then can spread out your giving over many years and designate charities as recipients when they need the donations most.

QCD: an option for tax filers age 70 ½ or older

Taxpayers who are or will be 70 ½ by December 2019, have the option to give to charities directly from an individual retirement account (IRA). The recent tax overhaul did not change charitable transfers from IRAs known as qualified charitable distributions (QCDs). This popular benefit allows tax filers, age 70 ½ or older, to donate IRA assets up to \$100,000 directly to one or more charities and have the donations count toward their required annual payout.

The main appeal of this strategy is the opportunity to reduce one's adjusted gross income which in turn can help reduce Medicare premiums that rise with income and taxes on net investment income. In addition, donors can take the standard deduction and still receive a tax break for their giving. While there is no deduction for gifts of IRA assets, the withdrawal does not count as taxable income.

In summary

I have described two distinct strategies that function in very different ways. The overall result is the same (giving to charities in a tax-advantaged manner), but the mechanics are very different. For those age 70 ½ or older, we suggest that you consult with your tax accountant to advise on the optimal strategy for you.

We are happy to provide guidance relative to appreciated securities that may be appropriate to give from your taxable account(s). While we do not provide accounting services nor prepare tax returns, as always, we are happy to coordinate with your accountant if you think either scenario is germane to your situation.

Sincerely,



Amy S. Thacher, CFP®

- * For clients who are interested in using a donor-advised fund, we recommend Schwab Charitable. A Schwab Charitable account can be established with an irrevocable minimum contribution of \$5,000. Grants of \$50 or more can be made to approved charities in the current or subsequent years.

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