

NORWICH UNIVERSITY
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INTO OUR THIRD CENTURY

Top 10 Ways to Give Smarter at the End of 2020

Based on “Top 10 ways to give smarter at the end of 2020” by Russell James, J.D., Ph.D., CFP®,
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1. Deduct \$300 in addition to taking the standard deduction:

For 2020 only! You can deduct \$300 of charitable gifts of cash above and beyond taking the standard deduction. This is per taxable unit (married filing jointly) not per person.

2. Deduct up to 100% of your income:

For 2020 only! You can deduct up to 100% of your adjusted gross income using charitable gifts of cash. *Contributions of non-cash property do not qualify for this relief. Taxpayers may still claim non-cash contributions as a deduction, subject to the normal limits.*

3. Tax-free IRA gifts at age 70½ and older:

You are not required to take the Required Minimum Distribution (RMD) in 2020 from your IRA. But those age 70½ or older can still make gifts directly from an IRA to a nonprofit up to \$100,000 *tax-free*.

4. Leaving Norwich in your will versus adding Norwich as a beneficiary to your IRA:

One tax smart strategy is to leave part of an IRA or 401K account to a nonprofit by making the organization a beneficiary on your account.

Why is this smart? Because while your heirs pay income taxes on this money, Norwich will not. Starting this year, heirs (except spouses) must take out all funds (and pay taxes) within 10 years of inheriting. But any part left to a nonprofit avoids these taxes. So, if you're leaving anything to a nonprofit, use these accounts first.

5. Give appreciated investments WITHOUT changing your portfolio – Charitable Swap:

Donating appreciated assets creates TWO tax benefits. The tax deduction is the same size as a gift of cash. (The asset must have been owned for a year or more.) PLUS, you avoid paying capital gains tax.

With a charitable swap, you donate old shares of stock and immediately purchase new shares in the same company. Your portfolio doesn't change, but the capital gain is removed. (There is no waiting period. Why? Because this is gain property, not loss property. Therefore, the “wash sale” rule doesn't apply.)

6. IRA gifts at age 59 ½ – 70½:

IRA withdrawals during this age create no penalties, but they are taxable. However, this year cash gifts can be deducted up to 100% of income. If you are already itemizing deductions this can help offset the tax impact from an IRA withdrawal.

7. Combine a Roth IRA conversion with a donation:

A Roth IRA conversion moves money from a standard IRA into a Roth IRA.

The benefit: all distributions from the Roth IRA are tax-free.

The downside: the money moved into the Roth IRA counts as immediate income.

However, this year only, up to 100% of income can be offset by charitable deductions. This includes income created by a Roth conversion. If you already have a multi-year charitable plan or pledge, donating it all this year and combining with a Roth conversion might make sense.

8. Bunch gifts with a donor advised fund:

The 2018 tax law created much higher standard deductions. Fewer people can use charitable deductions because they aren't itemizing. One way around that is to "bunch" charitable gifts.

Example: A donor puts 5 years' worth of donations into a donor advised fund. The donor takes a tax deduction for the entire amount in that year. Because the deduction is so large, the donor itemizes in that year. In later years, the donor makes gifts to charities from the fund. This creates no tax deduction. But in those years the donor takes the standard deduction instead of itemizing.

9. Move your 401K into an IRA now to prepare for future IRA gifts:

Required Minimum Distributions will return in 2021 for those age 72 and older. A qualified charitable distribution from your IRA reduces your Required Minimum Distribution (RMD). It's a great way to give!

To do this with a 401K, you must first convert the account into an IRA. But conversion requires first taking any RMD from the 401K. You must pay taxes on that distribution. You can avoid that by making the conversion this year.

There are no RMDs in 2020. So, you can convert your 401K into an IRA. And you can do it without paying any taxes this year, even if you are age 72 and older. Then, you'll be set up to make future donations from your IRA whenever you want.

10. Take an immediate deduction for donating inheritance rights to homes or farmland:

Many people like to include a charitable gift in their will. But you can donate the inheritance rights to farmland or a home using a special deed instead. Doing this creates an immediate income tax deduction. Right now, these deductions are large because interest rates are low.

Example: A 55-year-old donor deeds the inheritance rights to \$100,000 of farmland before the end of 2020. The donor gets an immediate income tax deduction of \$90,371. The donor keeps the right to use the property for the rest of his life. It is deductible because, unlike a will, the donor cannot change his mind once the gift is made.

Remember: These are just a few ideas to discuss with your tax advisor. They may not apply in your situation.

For more information visit:

Norwichgiftplans.org