As explained in the article, “Standard or Itemized Deduction,” more taxpayers are likely to take the standard deduction for 2018, rather than claim itemized deductions. Therefore, they’ll lose the tax benefits from their charitable contributions.

Example 1: Art and Beth Dean are in their 40s and have paid off their home mortgage. They seldom have substantial unreimbursed medical expenses and typically contribute around $7,000 a year to charity. In prior years, they have itemized deductions because of large payments for state income tax and local property tax.

This year, their deduction for taxes paid is capped at $10,000. If they itemize, including their charitable contributions, they would have a total of $17,000. Therefore, the Deans will instead claim the $24,000 standard deduction for couples filing jointly in 2018. They would get no tax break from their $7,000 of donations.

Thinking Ahead

One possible tactic would be for the Deans to make a deductible charitable contribution of, say, $35,000 to a donor-advised fund in late 2018, bringing their itemized deductions to $45,000: $21,000 over the standard deduction amount. In effect, this $35,000 outlay gives the Deans a $21,000 tax deduction.

In this scenario, the Deans could advise the charitable fund to disburse $7,000 from their donor-advised fund in 2018, another $7,000 in 2019, and so on, through 2022. Because the deduction was taken in 2018, no further deductions would be available for these transfers. They are prepaying five years’ contributions in order to get some tax benefit from these expenses.

There are tradeoffs here, including forgoing the use of money by prepaying donations. The higher your tax bracket and the closer your other itemized deductions to the standard amount, the more such efforts might be tax efficient. Our office can walk you through some possible plans.

Old Story

Yet another approach may be viable for taxpayers age 70½ and older who are taking required minimum distributions (RMDs) from their IRAs. Assuming that your RMDs at least equal your planned donations, you might benefit from making your charitable contributions through qualified charitable distributions (QCDs).

Example 2: Ed and Fran Grant are in their 70s and take RMDs. This year, each spouse has an RMD of around $15,000, which is usually taken at year-end. The couple gives about $10,000 a year to charity. The Grants calculate they'll claim the standard deduction for 2018.

This year, Ed informs his IRA custodian that he wishes to make $10,000 of his RMDs as charitable contributions; he provides a list of charitable recipients. That $10,000 will count towards Ed's RMD for 2018, so he only needs to withdraw another $5,000 to avoid a 50% penalty.

QCDs provide no charitable deduction. They do, however, reduce taxable income by reducing taxable RMDs. In this example, Ed reduces his taxable income by $10,000, which reduces his tax obligation. Even though the Grants get no tax deduction for their donation, they still save tax because they report less income on their joint return.

Qualified Charitable Distributions

- A QCD is generally a nontaxable distribution made directly by the trustee of an IRA (other than a simplified employee pension [SEP] plan or savings incentive match plan for employees [SIMPLE] IRA) to an eligible charity.
- The IRA owner must have the same type of acknowledgment of the contribution that would be required to claim a deduction for a charitable donation.
- The maximum annual QCD is $100,000 per IRA owner.
- The amount of the QCD is limited to the amount of the distribution that would otherwise be included in income.
- If an IRA includes nondeductible contributions, the distribution is first considered to be paid out of otherwise taxable income.

If you have questions about charitable deductions and your taxes, give us a call.