Tax Implications of 2018 and 2019 Law Changes on Charitable Donations and What to Do about It

Disclaimer: The views and opinions expressed in this article are those of the author and do not reflect an official policy or position of OLLI-UA. As always, consult your tax adviser or the IRS to determine whether a contribution is deductible.

Beginning in 2018, depending on your personal financial situation, you may no longer see a tax benefit from making charitable contributions. For 2018, the standard deductions almost doubled and for 2019 increased further to $24,400 for married filing joint (MFJ); $18,350 for Head of Household (HoH); and $12,200 for single (S). For each taxpayer age 65 or older or blind, the standard deduction is further increased by $1300 for MFJ, or $1650 if HoH or S. If your itemized deductions (charitable plus others) do not exceed your standard deduction, you would not itemize, and you would not have a direct tax benefit from charitable contributions.

Qualified Charitable Distribution (QCD)
However, if you have a traditional IRA account and are over age 70-1/2, you ***are*** able to get an indirect tax benefit from your charitable contributions. Here's how: Ask your IRA custodian to transfer money **directly** from your IRA to your chosen eligible charities. This is called a Qualified Charitable Distribution (QCD). This amount would be a "distribution" (and, by your choice, can count towards or exceed your Required Minimum Distribution (RMD) for the year, to a maximum of $100,000 per year). Under the rules for such transfers, since the money withdrawn goes directly to the charity, the amount of the QCD is not reported as income and is not reported as a charitable contribution (i.e., the two transactions cancel each other out). So, you ask, how does this help me? Although you don't get the charitable deduction, your lowered AGI has two important benefits: a) it reduces the threshold for deducting medical expenses; and b) it gives you a lower starting point on your state tax return.

[Important note: Your 1099-R will show the **entire** amount of your distribution, including the QCD), as taxable. You should receive a separate letter from your custodian showing the amount of the QCD. You should enter this amount in your tax prep software on a separate line to effectively reduce the taxable amount shown on your 1099-R.]

"Bunching" Contributions
Another way to continue to benefit from charitable contributions would be to "bunch" your contributions for two or three years into a single year. If you want to do this but still spread out when the charities receive your money, you could open a "donor-advised" charitable trust through a broker or banker, such as Fidelity or Bank of America (Merrill Lynch) for an annual fee. Your donations **to the trust** are tax-deductible in the year you make them (i.e., making sure that your total deductions are large enough to exceed your

standard deduction), and then you can instruct your broker to make grants to your charities in future years.

2019 Arizona Changes
For 2019 Arizona taxes, there are new provisions that affect charitable donations. AZ has adopted the Federal standard deductions of $24,400 for MFJ, $18,350 for HoH, and $12,200 for S. Thus, many taxpayers who previously itemized for AZ will now find it better to take the standard deduction; this will provide less incentive to make charitable donations. To offset the reduction in charitable deductions that this would likely cause, AZ now allows you to add 25% of your charitable deductions to your standard deduction.

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