US News & World Report
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A Guide to Tax Deductions for Charitable Contributions

Here's how your philanthropic giving can lower your tax bill.

By Beth Braverman

Dec. 15, 2022, at 1:29 p.m.

Despite the uncertain economy, most Americans (93%) plan to make at least a small donation to charity this year, according to a recent survey by Edward Jones.

The survey also found that 68% of Americans plan to donate the same amount as they did last year, while 17% said they will increase their contributions. Respondents reported that their primary motivators for making charitable donations is the belief that it's important to help others, according to the survey.

But these contributions also provide a tax benefit for some Americans.

Follow these five steps to maximize the tax advantages of your charitable contributions:

1. Decide if You're Going to Itemize

The pandemic provision that allowed a $300 deduction for taxpayers ($600 for couples) who did not itemize their taxes in 2021 has expired. That means that unless you're among the 11% of taxpayers who itemize their federal taxes, you don't need to worry about your charitable contributions – you're better off taking the standard deduction.

For the 2022 tax year, the standard deduction is $12,950 for single filers and $25,900 for married couples filing jointly, and in 2023 that will increase to $13,850 for individuals and $27,700 for couples.

Of course, if you're on the fence about whether to itemize your taxes or you live in a state with different tax rules for charitable deductions, you'll likely still want to calculate your contributions.

2. Consider Bunching Your Contributions

If getting a deduction for your charitable contributions is important to you but you're below the standard deduction threshold, you might consider "bunching" your contributions. To do that, you make several years' worth of contributions in a single year to get the deduction, then make no donations at all in the following years.

For example, if you normally give $1,000 per year to charity, you could bunch your deductions into one year and give $5,000 to an important cause or fund. Then, you wouldn't make any donations for the next four years.

"That way, you get the tax benefits of the deduction in one year, and a bigger benefit from the increased standard deduction in the other years," Andrew King, vice president of the Tax Policy & Research department at Goldman Sachs Ayco's Personal Financial Management Division, says.

3. Collect the Necessary Documentation

Donations are deductible only if they go to a 501(c)3 charitable organization – use this tool to check if your charity qualifies. If you donate more than $250, you'll need a receipt from that organization showing the date and amount of your contribution.

If you give tangible goods, such as clothes or household items, you'll have to estimate their market value at the time you donate. For anything worth $5,000 or more, you'll need a third-party appraisal.

You can also deduct the expenses you incurred while doing volunteer work but you can't deduct the cost of your labor.

4. Be Strategic About Giving Stock

Giving appreciated stock is a tax-efficient way to fund your charitable contributions. That's because when you donate the stock, you get credit for the charitable contribution and avoid reporting the capital gains you would have owed on your taxes if you had sold the stock.

In today's volatile market, however, you may also want to offload some stocks that have depreciated in value.

"In that case, you'd be better off selling the stocks and taking advantage of the capital losses, and then donating the net to charity," Ronald Finkelstein, national co-partner-in-charge of the Trusts and Estates Practice group at tax advisory firm Marcum, says.

5. Consider Donating Through Your IRA

Taxpayers who are at least 70 1/2 have one extra avenue to give to charity and lower their tax bills in the process. They can use a qualified charitable distribution to make a direct donation from their individual retirement accounts.

Seniors can make up to $100,000 worth of donations this way, and the amount counts toward their required minimum distributions. In addition, they don't have to report it as income on their taxes. This can be particularly useful to those without other deductions because they can get the tax benefit without having to itemize.