KANSAS CITY SYMPHONY

END OF YEAR GIVING TIPS

Now is the time to start thinking about tax returns due April 2022. Why now? Because now we can still likely do something about how much income tax we'll owe. Here are two planning ideas that create tax savings while continuing to help our favorite charities.

"Bunching" Donations

Several years ago, Standard Deductions were increased significantly and, as a result, many taxpayers no longer itemize their deductions. In many cases however, **"bunching" your tax deductions can reduce your taxes more than the larger Standard Deduction**. To accomplish this however, you must plan ahead.

Consider, for example, a joint-filing couple, age 65 or older. Their 2021 Standard Deduction is $27,400. If they have little or no mortgage interest and their unreimbursed medical expenses do not exceed 7.5% of their Adjusted Gross Income, their only itemized deductions are state and local taxes and charitable donations. But the deduction for state and local income taxes and real estate and personal property taxes is limited to $10,000. **So, if this couple pays $10,000 or more in those taxes, they'll need to donate at least $17,400 to qualified charities before itemizing deductions reduces their tax liabilities.**

"Bunching" donations could help in this example. Let's assume the couple normally donates $15,000 a year to their favorite charities. What happens if they accelerate their 2022 giving—that is, make their 2022 donations in 2021? If they give a total of $30,000 to charities in 2021 ($15,000 for 2021 and $15,000 for 2022), they are able to deduct $30,000 in charitable donations on their 2021 tax return, plus up to $10,000 in state and local taxes. Then, they could still deduct a Standard Deduction on their 2022 tax return. **In this scenario, if we assume this couple's marginal tax rate for federal and state income taxes is 27%, then bunching their deductions into one year reduces their tax liabilities by about $3,400.**

IRA Qualified Charitable Distributions

For a similar married couple, but who are 72 years or older, and who have not yet withdrawn their 2021 Required Minimum Distributions (RMDs), there's another tax saving opportunity to consider. **If their retirement funds are in IRAs, they can direct their RMDs to qualified charities, called "Qualified Charitable Distributions."** That satisfies their RMD obligation without having to pay tax on the distribution, while still taking the $27,400 Standard Deduction.

Let's assume, for example, the couple is required to withdraw $25,000 from their IRAs in 2021. If they receive the $25,000, then donate $15,000 of it, they'll pay tax on the $25,000 and likely deduct a $27,400 Standard Deduction. If, however, they direct their IRA custodian to send $15,000 directly to their charities and $10,000 to them, they'll satisfy their RMD obligation, avoid tax on the $15,000, and still deduct the same Standard Deduction. **In this scenario, at the same assumed 27% tax rate, they'll save more than $4,000.**

Whether or not these tax savings are available to you depends on your particular situation. Kansas City Symphony volunteers can help provide general information, but please seek specific advice from your financial, tax, and/or legal advisors.

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