

Two Tax Strategies For Donating To Charities In 2020

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As we head into the home stretch of 2020, we at Einhorn Barbarito have taken the time to pause and reflect on the amazing work our local charities have been doing in the wake of the COVID-19 pandemic. Working hand-in-hand, our healthcare heroes, essential workers and charities have been on the front lines to ensure community needs are met with necessary services and supplies. Equally important, their presence maintains the bonds of community when it can so easily be lost.

Now more than ever, charities are in need of donations and financial support to keep providing their services. Many have tapped into their emergency reserves to continue their work. Whether you routinely give to charity, have been thinking about donating more or simply want to show your support, 2020 is an important year to donate. Here are two ways to donate more than you may think you can to 501(c)(3) charities and you don't even have to itemize your deductions to receive a tax benefit!

1.

Cash is King – A One-Time \$300 “Above the Line” Deduction

As part of the \$2 trillion stimulus package that was signed into law on March 27, 2020 (the “Coronavirus Aid, Relief, and Economic Act” or “CARES Act”), individual taxpayers are able take up to a \$300 “above the line” deduction on their federal income tax return for *cash* donations made to charity in 2020. This means that the federal government will essentially subsidize a percentage of every dollar that you donate to charity up to \$300.

For example, if your effective federal income tax rate is 20%, then you would owe \$60 of tax on every \$300 of income ($\$300 \times 20\% = \60). If you donated \$300 in cash to charity on or before December 31, 2020, then your taxable income for 2020 is reduced by \$300. As a result, the tax you owe is reduced by \$60. You have effectively moved that \$60 from the government's pocket to the charity's

pocket.

2.

Share a Share – Donations of Appreciated Stock

Charitable donations of appreciated stock can be much more tax efficient than cash, check or credit card donations whether or not you itemize deductions.

For example, assume that you want to donate \$110 to charity and you have a portfolio of investments that includes a share of Apple stock. You purchased that share in 2017 for \$30 and it is now worth \$110. What do you do?

For starters, don't sell the stock to generate cash for the donation! The \$80 profit that would result from the sale (\$110 sale - \$30 cost basis) is a long-term capital gain ("LTCG") because you held the stock for at least one year. Under current federal law, LTCG is taxed at either 0%, 15% or 20% depending on your income for the year. Assuming a 15% LTCG tax rate, you would owe \$12 of tax on the \$80 gain leaving you with only \$98 to make that donation. If instead you donated the stock directly to the charity, the charity could sell it for \$110 and keep the entire amount because charities do not pay income tax. The federal government would effectively subsidize \$12 of your donation.

Now you say to yourself, "Well, I would rather donate cash because I want to hang on to the stock. I really like Apple and think it is going to up in value." Stop! You know you are allowed to buy another share of Apple, right? Instead of using cash to make the donation, donate the share and use your cash to buy another at \$110. You would be in the same position had you donated the cash, but the federal government pays \$12 of your donation.

But wait . . . there's more! You now own a share of Apple for which you paid \$110 rather than \$30. Assume in another year Apple goes up in value to \$150 and you want to sell it. Because your cost basis is \$110 and not \$30, your LTCG is only \$40 on the sale instead of \$120. At a 15% LTCG tax rate, you would owe only \$6 of tax instead of \$18. By donating a share of appreciated stock and

replacing it, you have saved \$24 in LTCG tax (\$12 on the donation and \$12 on the sale).

At this point, the only question is: what are you going to do with that \$24? Maybe donate it to charity.