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It is not often that you hear the words charity and taxes in the same sentence, but it applies in some situations. For those of you with a charitable disposition and disposed of some income during 2021 by making charitable donations, you might be able to avail yourself of some tax savings.

If you do not itemize deductions on Schedule A of Form 1040 you, or you and your spouse if filing jointly, may be able to take a charitable deduction for cash contributions made in 2021. Do you have a payroll deduction of a given amount per paycheck, a set monthly amount debited from your checking account, or a monthly charge to your credit card as a contribution to an eligible charity? If you do or otherwise have made a cash contribution to a charity in 2021 you can deduct your contribution up to \$300 (\$600 if married filing jointly). This is an entry on line 12b of Form 1040. If you are able to itemize you can't do this, but for those whose deductions are not large enough to itemize but otherwise made charitable contributions, you can combine charity and taxes. The contributions must be made to an organization that is religious, charitable, educational, scientific, or literary in purpose. Contributions to or to establish a donor advised fund are not eligible. Non-cash contributions are not eligible for this deduction.

Another charitable contribution device that might lower your taxes is the qualified charitable distribution (QCD) from your traditional IRA or individual retirement account. If you are age 72 or older, you are subject to the required minimum distribution (RMD) rules that requires you to take a taxable distribution each year. You can satisfy some or all of your RMD by directing your IRA custodian to pay an amount to a qualifying charity. The amount of the QCD counts toward satisfying your RMD but the amount is not included in your taxable income. There is an annual limit on the total QCD of \$100,000. You are not limited to a single charity but could make contributions to multiple charities, so long as the aggregate does not exceed the annual limit.

Let's use an example. Every year you have made a \$1000 contribution to the charity of your choice, say a school or college or a church. You do not have sufficient other deductions to itemize on your taxes. For 2022, your RMD from your traditional IRA is \$5000. You could direct your IRA custodian to made a QCD of \$1000 to selected charity and also to pay the balance of your RMD to you. You would not get the charitable deduction for \$1000 but your taxable IRA distribution would be \$4000. The QCD counts toward your RMD and you otherwise have taken \$4000 to satisfy your RMD, avoiding penalties, reducing your income tax liability, and making your charitable distribution.

Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances. To the extent this material concerns tax matters, it is not intended or written to be used by a taxpayer for purposes of avoiding penalties that may be imposed by law.

