Tax Opportunities related to Charitable Donations

Donating to charitable organizations, including KI, can bring tax benefits. Your particular situation may be quite different from others, and you should discuss any of these ideas with your tax advisor and/or financial planner.

Charitable donations (including KI dues) may be deductible (reducing taxable income). The Tax Cuts and Jobs Act (TCJA) was enacted in 2017 and most provisions expire in 2025. While TCJA is still in effect, many people use the higher standard deduction and do not itemize deductions. If, however, your situation makes itemizing deductions advantageous, you likely will want to take a deduction for your charitable contributions. In 2026 the TCJA expiring will significantly reduce the standard deduction and make itemized deductions more attractive, unless new legislation changes that.

One strategy is to “bunch” contributions into a given year to increase the itemized deduction in one year and elect the standard deduction in the next year. Another variation on the bunching strategy is to utilize a Donor Advised Fund (DAF), make a large contribution to the DAF, take the tax deduction that year, and then direct the DAF to make donations over a span of several years.

If you are fortunate to own significantly appreciated securities (e.g., stock, mutual funds) direct donations can help you avoid capital gains tax. Let’s say your grandfather gave you 18 shares of Disney on your bar/bat mitzvah. After several decades that stock has likely appreciated in value considerably. If it is in a taxable account (i.e., not in an IRA or Roth IRA) selling shares may expose you to capital gains tax. Depending on your income that year, your capital gains tax may be 0%, 15% or 20%. That tax can be avoided if you donate shares directly to the charity. The charity gets the full value (at current stock price), and you do not face any exposure to capital gains tax. The key is: don’t sell the shares, donate the number of shares you decide, and let the charity sell them. The charity will give you a receipt for the donation that you can use for deduction, if itemizing.

If you have assets in a tax deferred account (e.g., traditional IRA, rollover IRA) and you are at least 70 and 1/2 years old, you can choose to donate by making a Qualified Charitable Distribution (QCD). If you are subject to Required Minimum Distributions (RMD) the QCD counts toward your RMD, reducing or completely satisfying your RMD and reducing or eliminating the tax you would otherwise pay on the income from your RMD.

These ideas are topics you may want to discuss with your tax advisor and financial planner. Your personal financial situation should be carefully considered along with your charitable contribution plan.