Strategies for Maximizing Your Charitable Impact in 2021

Take advantage of a favorable environment for tax-smart, high-impact philanthropy

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2020 was a year we will never forget – for the depth of difficulties people faced, the breadth of challenges charities encountered, and the incredible generosity from donors to support those who were most impacted. In this year of historic tumult and uncertainty, Schwab Charitable donors recommended $3.7 billion in grants, over $230 million of which was specifically earmarked for COVID-19 relief.

A favorable environment

Despite the ongoing challenges and uncertainty that have carried over into 2021, the environment remains favorable for charitable giving. Consider the following primary factors.

Market performance: Although the market has been volatile, the S&P 500® index has neared record highs recently, and many investors have highly appreciated non-cash assets held for more than one year in their portfolios. Individuals may see this as an opportunity to give stock, mutual fund or ETF shares to minimize their taxes and maximize their philanthropic impact.

Current tax benefits for giving: Existing tax laws offer incentives to donors who contribute cash or appreciated non-cash assets. Annual income tax deduction limits for gifts to public charities, including donor-advised funds, are 30% of adjusted gross income (AGI) for contributions of non-cash assets held more than one year or 60% of AGI for contributions of cash. Donation amounts in excess of these deduction limits may be carried over up to five tax years.

Extension of Coronavirus Aid, Relief and Economic Security (CARES) Act provisions: There are also significant tax incentives for charitable giving through provisions in the CARES Act that have been extended through 2021. Individuals taking the standard deduction can claim an additional deduction of up to $300 for cash contributions directly to operating charities, and couples taking the standard deduction can claim up to $600.[1]

Donors who itemize deductions may elect a CARES Act 100% of AGI deduction limit for cash contributed directly to operating charities, and deduction amounts above this limit may be carried over for up to five tax years. In addition, the annual deduction limit for cash contributions by a business stays at 25% of taxable income instead of reverting back to the 10% cap.[2]

CARES Act incentives are not applicable for contributions to donor-advised funds, supporting organizations, or private foundations.[1]

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How to give more

As donors contemplate how to maximize their impact with their giving in 2021, there are a few key strategies to consider.

Give appreciated non-cash assets instead of cash

For those who itemize deductions, appreciated non-cash assets held more than one year may offer an additional tax benefit in comparison to cash donations. Beyond claiming a deduction for the fair market value of an asset, donors can potentially eliminate the capital gains tax they would otherwise incur if they sold the asset and donated the cash proceeds. This can mean even more going to charity and less to taxes, as shown in the example below.

Original cost (cost basis) of stock: **$5,000**

Federal long-term capital gains tax rate: **15%**

Fair market value of stock:
$50,000

	Option 1: Sell stock and then donate after-tax proceeds		**Option 2:** Contribute stock directly to Schwab Charitable	
Long-term capital gains taxes paid	$6,750		$0	
Charitable contribution and tax deduction	$43,250	vs.	$50,000	Additional amount available to grant to charities: **$6,750**
Tax savings*	$3,630		$12,000	Additional amount saved on taxes: **$8,370**

This hypothetical example is only for illustrative purposes. The example does not take into account any state or local taxes or the Medicare net investment income surtax.

* The tax savings shown is the tax deduction, multiplied by the donor's income tax rate (24% in this example), minus the long-term capital gains taxes paid.

Leverage deduction rules or a bunching strategy

1. **Give beyond existing limits and carry over the excess deduction.**

   Donors who wish to itemize deductions for non-cash assets, cash, or a combination of both may choose to give beyond annual deduction limits and carry over the excess amounts up to five years.

2. **Bunch contributions.**

   Some donors may find that the total of their itemized deductions for 2021 will be slightly below the level of the standard deduction. They may find it beneficial to bunch 2021 and 2022 charitable contributions into one year (2021), itemize their deductions on 2021 taxes, and take the standard deduction on 2022 taxes. In addition to achieving a large charitable impact in 2021, this strategy could produce a larger two-year deduction than two separate years of itemized deductions, depending on income level, tax filing status, and giving amounts each year.

   Donors who bunched two or more years of contributions into 2020 and subsequently will take the standard deduction for 2021 may also consider taking the special $300 or $600 deduction for cash donations made to operating charities in 2021.[1]

Look at retirement assets

1. **Make a Qualified Charitable Distribution (QCD) of IRA assets.**

   Whether itemizing or claiming the standard deduction, individuals age 70½ and older can direct up to $100,000 per year tax-free from their Individual Retirement Accounts (IRAs) to operating charities through QCDs.[1] By reducing the IRA balance, a QCD may also reduce the donor's taxable income in future years, lower the donor's taxable estate, and limit IRA beneficiaries' tax liability.

2. **Use a charitable deduction to help offset the tax liability of a retirement account withdrawal.**

   Those over age 59½ (to avoid an early withdrawal penalty) who take withdrawals from retirement plan accounts in 2021 may use deductions for their charitable donations to help offset income tax liability on the withdrawals. As with the above strategy, this offers the additional benefits of potentially reducing a donor's taxable estate and limiting tax liability for account beneficiaries.

3. **Convert retirement accounts to Roth IRAs.**

   Individuals who have tax-deferred retirement accounts, such as traditional IRAs, can use charitable deductions to help offset the tax liability on the amount converted to a Roth IRA. The primary benefits of a Roth IRA are tax-free growth, potentially tax-free withdrawals (if holding period and age requirements are met), no annual required minimum distribution, and the elimination of tax liability for beneficiaries (depending on the timing). Be sure to talk with a tax professional or financial advisor before deciding to do a Roth IRA conversion.

What donors can do next

Schwab Charitable has tools, information, and other resources available online to inform and guide donors throughout their philanthropic journey. Noteworthy resources at the start of a new year include:

- Defining a charitable mission
- Investing assets for potential tax-free growth
- Exploring charities for grant recommendations
- Giving with Impact, our podcast

For insights specific to the strategies discussed in this article, donors are invited to review these articles:

- Donating appreciated non-cash assets
- Bunching charitable contributions
- Making Qualified Charitable Distributions (QCDs)
- Considering a Roth IRA conversion

Donors contemplating any of the strategies highlighted above should consult with their tax and legal advisors. Donors and advisors may also call us at 800-746-6216 to request a consultation with one of our charitable specialists.

Giving is good. Giving wisely is great.

For questions or assistance with philanthropic planning or charitable giving:

Visit www.schwabcharitable.org

Call Schwab Charitable at 800-746-6216

Contact your advisor or Schwab Charitable relationship manager

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[1] Operating charities, or qualifying public charities, are defined by Internal Revenue Code section 170(b)(1)(A). Donor-advised funds, supporting organizations, and private foundations are not considered qualifying public charities.

[2] The CARES Act's 100% of AGI deduction limit on cash contributions applies to federal income taxes and may not be honored by each state's taxing authority. It is also unclear whether combinations of cash and non-cash assets can be used to reach or exceed the 100% of AGI deduction limit.