Year-end giving to charity or loved ones

The holiday season is here and many people plan to donate to their favorite charities or give money or assets to their loved ones before the end of the year. Here are the basic tax rules involved in these transactions.

Donating to charity

In 2022, in order to receive a charitable donation write-off, you must itemize deductions on your tax return. What if you want to give gifts of investments to your favorite charities? There are a couple of points to keep in mind.

First, don't give away investments in taxable brokerage accounts that are currently worth less than what you paid for them. Instead, sell the shares and claim the resulting capital loss on your tax return. Then, give the cash proceeds from the sale to charity. In addition, if you itemize, you can claim a full tax-saving charitable deduction.

The second point applies to securities that have appreciated in value. These should be donated directly to charity. The reason: If you itemize, donations of publicly traded shares that you've owned for over a year result in charitable deductions equal to the full current market value of the shares at the time the gift is made. In addition, if you donate appreciated stock, you escape any capital gains tax on those shares. Meanwhile, the tax-exempt charity can sell the donated shares without owing any federal income tax.

Charitable donations from your IRA

IRA owners and beneficiaries who've reached age 70½ are permitted to make cash donations totaling up to $100,000 annually to IRS-approved public charities directly out of their IRAs. You don't owe income tax on these qualified charitable distributions (QCDs), but you also don’t receive an itemized charitable contribution deduction.

The upside is that the tax-free treatment of QCDs equates to an immediate 100% federal income tax deduction without having to worry about restrictions that can potentially delay itemized charitable write-offs. Contact your tax advisor if you want to hear about the full benefits of QCDs. If you’re interested in taking advantage of this strategy for 2022, you’ll need to arrange with your IRA trustee or custodian for money to be paid out to one or more qualifying charities before year end.

Giving to loved ones

The principles for tax-smart gifts to charities also apply to gifts to family members and loved ones. That is, you should sell investments that are currently worth less than what you paid for them and claim the resulting tax-saving capital losses. Then, give the cash proceeds from the sale to your children, grandchildren or other loved ones.

Likewise, you should give appreciated stock directly to those to whom you want to give gifts. When they sell the shares, they’ll pay a lower tax rate than you would if they’re in a lower tax bracket.

In 2022, the amount you can give to one person without gift tax implications is $16,000 per recipient (increasing to $17,000 in 2023). The annual gift exclusion is available to each taxpayer. So if you’re married and make a joint gift with your spouse, the exclusion amount is doubled to $32,000 per recipient for 2022.

Tax-smart gifts

Whether you’re giving to charity or loved ones (or both) this holiday season, it’s important to understand the tax consequences of gifts. Contact us if you have questions about taxes and any gifts you want to make.

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