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BLB&B Advisors, LLC
FINANCIAL GUIDANCE SINCE 1964

MONEY *notes*

It's a new year and a new opportunity to make an impact on your community. With recent 2023 IRS updates, it's a good time to understand and maximize any tax benefits that could come with your charitable contributions this year.

As part of the Inflation Reduction Act, **the IRS released new tax brackets** that increase the maximum income threshold at each level. The good news is that you may be eligible for a lower tax bracket in 2023, particularly if you have significant charitable deductions.

The IRS has also increased the 2023 standard deductions. This means you must surpass a higher amount of deductions for it to make sense to itemize your deductions. For example, if you are a married person filing jointly, your standard deduction is up to $27,700. Therefore, you should take a tax deduction for charitable contributions if your total deductions (charitable, state and local tax- capped at $10,000, home mortgage interest up to $750,000 of debt, among other things), exceeds $27,700. It's important to understand all of your tax deductions so that you can determine how much extra it would take in charitable contributions to exceed the standard deduction. Remember, if you are taking charitable deductions, cash contributions to charities can be deducted up to 60% of your adjusted gross income.

Even if it doesn't make sense to take a charitable deduction, you should not be dissuaded from giving to the causes you care about. **Bunching donations in certain years and grouping the tax effects is one strategy.** This works especially well if you have a donor advised fund (DAF) in which you can contribute a large amount one year (and take the charitable deduction) and then distribute the funds over time so that your charities do not miss your annual gifts. Also remember that cash is actually the least tax-effective charitable gift. **By donating securities held for more than one year, you avoid paying capital gains tax and can deduct the fair market value of that security in the year you donate.**

For older individuals, the new "SECURE 2.0" legislation, as part of the Consolidated Appropriations Act of 2023, has some key provisions to be aware of:

- The required minimum distribution (RMD) age (previously 72) increased to 73 on January 1, 2023. The RMD is the mandated amount a taxpayer must withdraw from qualified retirement plans, which will increase your adjusted gross income and perhaps your tax bracket. **To offset the RMD effect, consider donating funds from your qualified plans directly to charities. Anyone over 70 ½ (which includes those not yet required to take the RMD) is eligible to do this (known as a Qualified Charitable Distribution or QCD).** The annual QCD cap is slated to be indexed for inflation, which will allow taxpayers to give even more from their IRAs directly to charity.

- Taxpayers can now also make a one-time $50,000 QCD transfer from their IRA to a split-interest gift, such as a charitable gift annuity or a charitable remainder trust. Note that these charitable vehicles must be created solely for the purpose of receiving a QCD, as they can only contain IRA assets.

If you are interested in learning more about maximizing the tax benefits of your charitable giving, contact your BLBB Advisor at 215-643-9100.

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