Charitable giving 101:

Tax implications of giving

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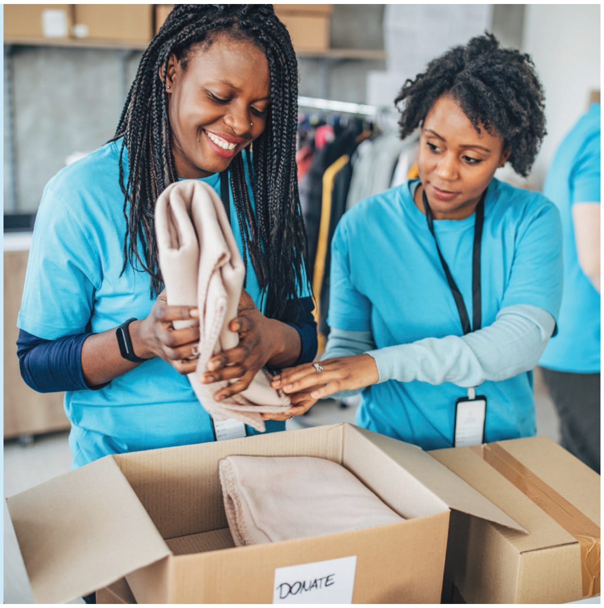


Whether you're considering a one-time donation or making ongoing gifts, integrating charitable giving into your overall financial strategy may yield greater benefits for the charity (in the form of more money) and to you — as a tax deduction.

Gaining a basic understanding of how charitable giving may affect your taxes can help you get the most from your giving strategy.

Income-tax deductions

In addition to supporting an organization or a cause that is important to you, one of the benefits of charitable giving can be a tax deduction. If you choose to itemize your deductions, the amount of your charitable deduction depends on:

1. Your adjusted gross income (AGI)
2. The type of asset donated and how long you've owned it
3. The type of organization you support

Itemizing vs. standard deduction

A deduction lowers your taxable income, which in turn lowers the income taxes you pay. Everyone is entitled to the standard deduction amount (at least $29,200 in 2024 for married filing jointly; at least $14,600 single). If the aggregate amount of your itemized deductions exceeds the standard amount, you generally will pay less in income tax by itemizing.

There are two main types of deductions: above-the-line and below-the-line. The terms indicate whether the deduction occurs before or after the calculation of your AGI on your income tax form.

Above-the-line deductions reduce your AGI. Your AGI helps determine which other deductions and credits you're eligible to receive. So, by reducing your AGI, above-the-line deductions provide greater benefits than those below the line (all things being equal). And above-the-line deductions can be taken regardless of whether you itemize, whereas below-the-line deductions are only available if you itemize. Note that charitable income tax deductions are generally below the line.

Most common itemized expenditures:

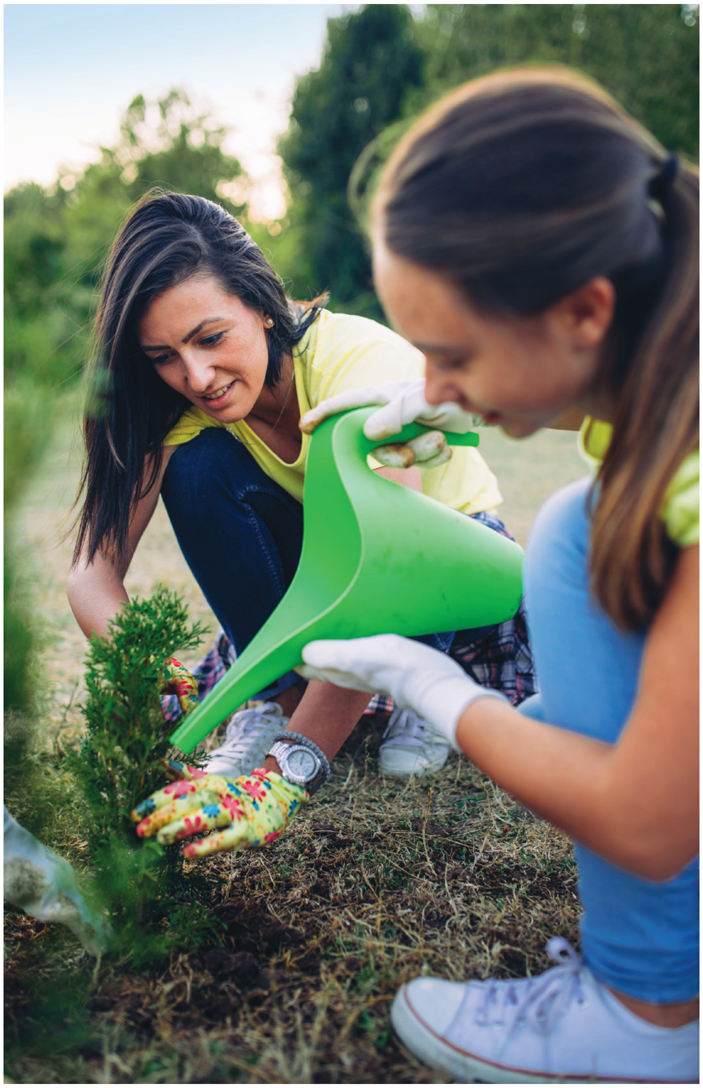
- Charitable donations
- Mortgage interest (limited to first $750,000 of debt, married filing jointly)
- State and local taxes (limit $10,000*)
- Unreimbursed medical and dental expenses (amounts exceeding 7.5% of AGI)

* Limits accurate as of January 2024

Claiming charitable tax deductions

To claim a charitable tax deduction, the donation must be made to a qualified organization in good standing with the IRS. To ensure the organization is a qualified charity, take any of these steps:

- Look for the charity on the IRS' Tax-Exempt Organization Search webpage (www.irs.gov/charities-non-profits/tax-exempt-organization-search).
- Ask to see the organization's determination letter provided by the IRS.
- Dig deeper into the organization's governance structure, as well as its tax status, by searching online resources such as the Better Business Bureau's Wise Giving Alliance (www.give.org) or Charity Navigator (www.charitynavigator.org).



When claiming a charitable tax deduction, the donor (you) can't receive personal benefit from the gift. For example, you can't receive football tickets or a table at a charity dinner in exchange for donations to your alma mater. Any personal benefit you do receive will reduce the amount of your tax deduction. So, if you gave $1,000 to your favorite college and received season tickets valued at $800, your charitable tax deduction would be $200.

Deduction limits

The amount of your income-tax deduction is impacted by three factors.

1. ***Adjusted gross income (AGI)* —** Limits are typically calculated as a percentage of your AGI. This represents the maximum amount you can deduct each year.

2. ***Asset type donated* —** The AGI limit varies based on the type of asset you give to charity.

   a. Individual retirement account (IRA) assets: You can transfer assets directly from your IRA to a qualified charity in what's called a qualified charitable distribution (QCD) if you meet certain requirements. Although the donor of a QCD cannot take a deduction for the distribution, a QCD can offset your required minimum distribution and reduce your AGI. QCDs are an option regardless of whether you itemize your deductions. QCDs generally must go directly to a qualified charity. Individuals can make a one-time distribution up to $53,000 (2024) to certain charitable trusts. Other giving vehicles such as donor-advised funds (DAFs) are prohibited from accepting QCDs.

   b. Cash generally has the highest deduction limit, followed by appreciated property (such as stocks, real estate or collectibles). However, this does not necessarily make it the best asset for you to donate.

   c. Appreciated property is eligible for a deduction based on its current market value if it's been held for more than one year. If the current market value is not easily identifiable — such as for collectibles or works of art — an appraisal may be needed, along with additional IRS documentation. The donated item must be directly applicable to the charity's primary purpose (e.g., works of art donated to a museum). Otherwise, your deduction is generally limited to what you paid for it versus what it's worth.

   d. Ordinary-income property is any asset that would have generated ordinary income taxes if it were sold. Examples include inventory, personally created works of art and securities held for one year or less.

3. ***Type of charitable organization* —** Direct gifts to public charities and DAFs generally have a higher AGI limit than gifts to private foundations. Gifts from a private individual to another private individual (to help pay for unexpected expenses, for example) are not tax-deductible and may even be subject to gift taxes.

General summary of deduction limits

	Public charity	Private foundation
Qualified charitable distributions (QCD)	The first $105,000 (in 2024, indexed annually) excluded from AGI[1]	Not eligible to receive
Cash	Full amount up to 60% of AGI	Full amount up to 30% of AGI
Long-term appreciated securities, including tangible personal property[2]	Fair market value up to 30% of AGI	Fair market value up to 20% of AGI
Ordinary-income property[3]	Generally limited to your cost basis	Generally limited to your cost basis

[1] DAFs are not eligible to receive a QCD.
[2] Tangible personal property is generally limited to cost basis if it is not related to the tax-exempt purposes of the organization.
[3] Inventory, personal works of art, investments held for one year or less.

Integrate charitable giving into your financial strategy

***Carry forward*:** You can carry forward any unused portion of the tax deduction to offset future income for up to five years. For example, an individual with an AGI of $100,000 gives $75,000 in cash to a charity, limiting their deduction to 60% of their AGI.

Example of a carry-forward deduction

	This year	Next year
AGI	$100,000	$100,000
Charitable deduction *(60% of AGI for cash contribution to public charity)*	$60,000	$15,000
Taxable income	$40,000	$85,000

***Multiyear planning*:** Work with your tax professional on potential tax planning. Depending on your unique circumstances, it may be more advantageous to aggregate donations into a single year, or it may be better to split donations into multiple years.

- If you give annually, but it's not enough to help you itemize in any one year, you may consider combining several years' worth of planned donations into a single year. This may enable you to itemize your taxes and realize a larger deduction in the current tax year.
- Conversely, large gifts made in a single year may reduce your tax bracket to a point it could be more advantageous to split donations among multiple years.

***Record keeping*:** If you plan to itemize your deductions, the IRS requires that you substantiate your donation. For amounts under $250, your own records, such as a canceled check, can suffice. For donations of $250 or more, you must obtain written acknowledgement of the donation from the charity. This written acknowledgement is commonly referred to as a charitable donation receipt. All qualified charities should be able to provide you with this documentation.

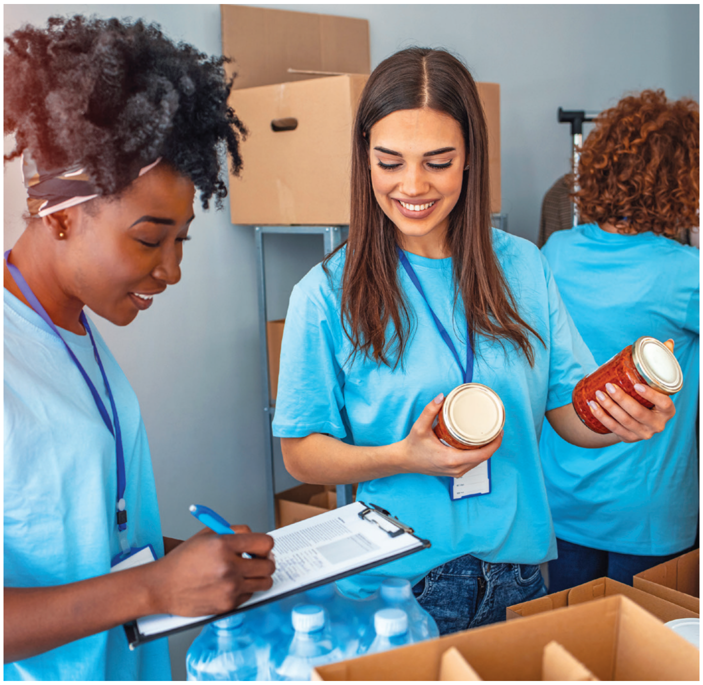
***Estate taxes*:** Individuals and couples with taxable estates may benefit from charitable giving. Many people opt to leave money to a charity at their death. This provides control of your money during your lifetime should you need it, and it can help minimize estate taxes. Conversely, by donating assets during your lifetime, you remove those assets from your estate, which can also lower the estate-tax liability for your heirs, and you may get a current income tax deduction. That said, the tradeoff is that you no longer have access to that money should you need it.

Taxable estates

Individuals with estates exceeding $13.61 million or married couples with estates over $27.22 million (2024) are subject to the federal estate tax. The value of the estate over this amount is subject to federal estate tax at a rate of up to 40%.

***Legislative risk*:** Keep in mind tax deduction limits and tax rates are subject to legislative change. While it can be beneficial to have a long-term plan for your charitable giving, you may need to revise the plan as your personal circumstances and tax laws change. This is particularly true for longer-term or more complex giving strategies.

***Balancing goals*:** It's important to understand the impact your giving goal may have on your other financial goals. Think about the tradeoffs you are and are not willing to make to achieve them. Consider whether you're willing to leave less of an inheritance to your heirs, delay retirement or live on less income to meet your goals.



An Edward Jones financial advisor can help you think through charitable giving goals, potential tax implications and tradeoffs to create a financial strategy for your unique needs.

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