# Charitable donation of inventory

Update: As predicted in the article below, charitable donations took a big hit, post Tax Reform, with 61% less charitable tax deductions claimed. As a COVID financial relief measure, there is a new $300 donation deduction provision in 2020 (extended to 2021 and increased to $600 for “married filing jointly”) for those who claim the standard deduction (in addition to those who itemize). Additionally, individuals can deduct up to 100% of their AGI on charitable donations in 2020 and 2021. There’s currently a lot of discussion about the impact of the Republican tax plan, which now has been calculated to have a net result of higher taxes on everyone – minus the top 1% – in order to cut taxes for that income group and big corporations. I won’t get in to all of the implications and politics again (not much has changed since my prior analysis other than the addition of a premium increasing elimination of the ACA individual mandate). But, I do want to highlight something that could be dramatically impacted by the plan that is getting almost zero press: the impact on charitable donations. Here’s the crux of it: charitable donations are tax deductible, so long as you itemize your taxes. One of the staples of both the Senate and House versions of the tax bill is that it would nearly double the standard deduction for individuals and families to $12,200 and $24,400 respectively. A higher standard deduction means less itemized tax returns. Somewhat surprisingly, only 30% of individuals itemize their taxes currently, and it’s estimated that with the higher standard deduction, the number of itemizers would drop to a mere 5% (typically the wealthiest 5%). One of the unfortunate side effects of this is that charitable donations will take a huge hit. According to a May study by the Lilly Family School of Philanthropy at Indiana University, this reduction in itemizing taxpayers would reduce charitable giving by $4.9 billion to $13.1 billion annually. Charitable organization will become reliant strictly on good will, without the tax deduction incentive to stimulate giving. That would have disastrous consequences for organizations that do incredible work all across the country. On a personal level, it also means that all of that stuff in your home that you’ve been meaning to donate to local charities could potentially lose its charitable donation value as soon as the end of this year, if the Republican plan is passed “as is”. What can you do about this? If you itemize, donate! Use this possible change in the tax code as motivation to get up off your butt, go through every single item that you own, and donate as much as you possibly can to your favorite organizations by the end of this year (as well as make higher cash donations than you typically would). If this change does not go through, the worst thing that could happen is you have a cleaner home and help out some great charitable organizations. This possible change to the tax code will impact me personally – and I’m sure it will impact many of you as well. I’ve been itemizing my taxes and donating heavily to charity for as long as I have been a homeowner (the last 13 years), but with the increase in the standard deduction, it will no longer make sense for me to itemize. As I was writing this article, I turned to Mrs. 20SF and said, “we need to go through every item we own and donate as much as we can by the end of the year.” How much in charitable donations can you deduct? As I previously highlighted in my article on the maximum charitable donation amount, it depends on your adjusted gross income (AGI). According to IRS publication 526 (the gospel for qualified charitable contributions): The amount you can deduct for charitable contributions generally is limited to no more than 60% of your adjusted gross income. Your deduction may be further limited to 50%, 30%, or 20% of your adjusted gross income, depending on the type of property you give and the type of organization you give it to. Check out that post for more details and resources, but at the least, make sure you understand how much you can deduct and collect charitable donation receipts. Even if you take the standard deduction, please don’t stop donating. Charitable organizations need us more than ever to do their good work. Related Posts: Your session is about to timeout due to inactivity. If you would like to remain in the session, click OK. When you finally make the decision to get a website, whether for your personal blog or for business use, most people focus on what your site should look... Cleaning out closets and disposing of seldom-worn clothing is a chore that can be financially beneficial if you donate those clothes. Goodwill and The Salvation Army accept clean, gently used clothing. Other charitable organizations such as the Lupus Foundation of America periodically provide bags and schedule pickups of clothing and other items. It pays to keep track of clothing donations because they can be deducted on your income tax. Estimate the value of your clothing donations according to charts provided by Goodwill. Men’s and women’s sweaters, for instance, range from $5 to $15. Men’s and women’s jeans range from $4 to $21. Children’s clothing estimates are less. The Salvation Army charts provide low and high estimates depending on the age and quality of the items. There are separate listings for children’s, men’s and women’s clothing with men’s overcoats, for example, ranging from $15 to $50 and women’s fur coats estimated at $25 to $400. Visit local thrift shops or resale shops to get an idea of how clothing items similar to yours are priced. Itemize deductions. You must file IRS Form 1040 and itemize deductions on Schedule A in order to deduct the fair market value of donated clothing. Fair market value is considered the amount that a willing buyer would pay for the item. You can’t deduct clothing donations if you take the standard deduction on your federal income tax. Complete IRS Form 8283 Non-cash Charitable Contributions if the total of your non-cash deductions including clothing is more than $500. If the value of your clothing donations is more than $250, you must obtain a receipt from the charity. This year has been challenging. The COVID-19 pandemic shut down many economic sectors, leading to increased unemployment and surging food insecurity. According to the Nonprofit Finance Fund, many nonprofits are struggling under increased demand for services and decreased support (due to canceled fundraising events and reduced donations). If you’ve remained financially stable, or if charitable giving is important to you, your year-end donations could be critical to a number of struggling nonprofits. We’ll outline benefits of year-end giving—along with great ways to achieve your goals. In light of needs generated by the still-ongoing COVID-19 pandemic and increased demand on charities, 2020 is a perfect year to donate. The pandemic led to the March 2020 Coronavirus Aid, Relief, and Economic Security (CARES) Act, set to expire at the end of 2020. The CARES Act allows you to take a $300 deduction for cash donations to qualifying organizations, even if you don’t itemize. Qualifying organizations must have charitable, educational, religious, literary, or scientific purpose—and be classified by the Internal Revenue Service (IRS) as tax-exempt. According to the IRS, that $300 donation lowers your adjusted gross income (AGI) and taxable income. The CARES Act encourages big-dollar donations, too, by temporarily lifting the typical limit on deductions for those who itemize. Previously, donors could deduct donations on up to 60% adjusted gross income (AGI). In 2020, it’s possible to deduct up cash contributions of up to 100% of AGI. If you wish to give away your entire year’s income, it’s possible to do so in 2020. However, few will benefit from this temporary lift—mainly wealthy older adults with low annual incomes who aren’t dependent on their retirement funds. Also, 2020’s stock market growth may mean you have more to give in appreciated assets. Many states also offer tax deductions for charitable contributions, or have their own tax-related laws. Speak with a tax attorney or professional about your situation. Good reasons to give at year’s end include the following, ranging from financial advantages to personal satisfaction. Some employers match charitable donations, although they may place limits and deadlines on charitable matches, such as Dec. 31. You might be able to get a match even if you’re not currently an employee—many employers match donations given by an employee’s spouse or a retired employee. Some companies match at rates of two or three times what’s given by an employee. Check with your HR department to find out your company’s rules and match rate. To count toward your 2020 taxes, you must make contributions by Dec. 31, 2020. In a standard year, you can only deduct charitable donations if you itemize deductions. But this year, you can deduct donations up to $300 even if you don’t itemize. If you contribute more than $300, you can only deduct the excess by itemizing deductions, although most taxpayers take the standard deduction. Most organizations offer a way to give in honor of someone else. This can be a great way to take care of last-minute holiday gifts, especially for someone hard to shop for. However, it may be up to you to tell your honoree by card. Check with the site or charity to find out. Some conservation organizations provide “symbolic adoptions” along with a certificate and plush toys, so there are physical (and wrappable) gifts, in addition to your monetary donation. This year, the CARES Act waived required minimum distributions for most retirement plans, for those over age 70 ½. Another option is to give up to $100,000 from your IRA directly to a qualified nonprofit by Dec. 31. This is also called a qualified charitable distribution (QCD). Although taking the minimum distribution isn't required in 2020, a QCD is a way of giving during any year, without facing the normal tax consequences of an IRA distribution. Speak with a tax or personal finance professional about the particulars of your situation, especially where taxes and retirement funds are concerned. The best way to donate depends on what you’re trying to achieve—whether it’s a quick gift or a larger tax deduction for your itemized 2020 return. Give cash before Dec. 31 to claim the $300 CARES Act deduction. Or you could donate appreciated stocks or other securities to an organization, to potentially avoid paying capital gains on the appreciated amount. However, you can’t deduct the stock’s value from your taxes or claim the CARES deduction. If you plan to itemize, you can donate mutual funds, cash, or other items before Dec. 31 to qualified charities. “As stock values have gone up, now may be a good time to donate if you have a legacy stock holding that has appreciated in value,” explained Roger Ma, a New York City-based founder and financial planner at lifelaidout and author of “Work Your Money, Not Your Life.” “You can donate the security and get the stock’s full value as a tax deduction, without paying capital gains,” he says. Or, you may be interested in more sophisticated ways of giving that pair tax benefits with the satisfaction of helping causes important to you. For example, a donor-advised fund (DAF) could be a good fit if you’re charitably inclined, itemize deductions already, and are in a high tax bracket, according to Ma. A DAF is like a charitable investment account, and can be a tax-efficient way to manage appreciated assets and larger contributions. You could also give assets like stocks, bonds, and restricted stock from your employer. DAF giving does not fall under the CARES Act’s temporary suspensions, and neither does donations of goods and other non-cash contributions. Only cash donations are deductible if you don’t itemize. Beyond cash and securities, you can give household items, too—if you itemize the used goods you give away, Goodwill’s guide to estimated values can help. Donating used items keeps them out of the waste stream and provides usable items for people on a budget—which could be especially valuable this year. According to data from ShopperTrak, a retail analytics firm, overall customer traffic to Goodwill stores was up this year between May and August. Depending on your contribution, you may need a receipt from the receiving organization or need to fill out a special tax form. Check with your tax preparer for more information. If your mid-April panic-buying spree led to too many tissue boxes or pallets of toilet paper, many organizations accept new-condition toiletry and hygiene items as well. Giving is a good idea for a number of reasons, especially in 2020. In addition to effectively spreading the wealth, you can improve your own circumstances and sense of well-being by benefiting from special tax deductions and clearing your space. Plus, it’s a great way to start off on the right foot for the new year.