

Changes to Charity Tax Deductions



In 2011, in an effort to close budget shortfalls and fund a jobs bill, President Barack Obama suggested reducing the amount Americans may deduct from their taxes for charitable contributions. Throughout the years, researchers have conducted various studies to determine the impact on non-profits of changing charity tax deductions.

It turns out the effect depends on the donors and the charity type. One study suggested hospitals and educational institutions would be most affected, because their donors already face a 28-percent deduction limit, and the president's suggestion would lower this percentage.

Next year, high-income donors may still face a charity tax deduction change. The Pease rule, which limits the amount donors may deduct when they itemize on their taxes, was extended following the economic downturn and will become effective again starting in 2013 unless Congress acts. In 2012, the Senate's Democrats included the measure in their plan to raise taxes for those earning more than \$250,000 annually.

In another tax matter, the Senate Finance Committee recently voted to extend several tax provisions, such as the IRA Charitable Rollover. This allows older Americans to take individual retirement account (IRA) money and donate it to charity, which can save them significantly on taxes, instead of counting it as income. Those with traditional IRAs must take required minimum distributions once they reach age 70 ½.

Given Congress' recent slow pace of activity, experts believe the possibility of a full vote in September or before Election Day remains slim. Nevertheless, the Senate Finance Committee's action remains positive and sets the tone for a future vote.

Taxpayers who earn more than \$250,000 annually should work closely with their financial and tax advisors to determine the best courses of action for their situations. Given the election year and federal government's numerous fiscal challenges, the tax laws remain especially subject to change.

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Tagged as: *charity*, *giving*, *President Barack Obama* and *charity tax deduction*

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