

# MOOREINSIGHTS

## **How Charitable Giving Can Affect Your Taxes and Retirement Planning**

Whether it's the holidays or a birthday, giving is a wonderful way to express feelings and make people smile. While it's common to give gifts to loved ones, giving to those you don't know can be as rewarding.

Making charitable donations to those in need doesn't just fill you with a sense of purpose and joy; it also benefits you financially. For anyone in retirement or retirement planning, giving is an excellent way to improve your long-term financial outlook or keep it on track.

### **Key Considerations for Charitable Donations**

The act of donation provides several monetary benefits that can help you attain lasting financial freedom.

#### **Tax Deductions**

Charitable giving is one way to lower your taxes. When you donate to a qualified nonprofit, you may be able to deduct that value from your taxes. This lowers your taxable income for the year. If you're a high earner or in retirement, reducing the taxes owed on your salary, pension, Social Security, or investment income means more money for you.

#### **Donating from Retirement Accounts**

Those with IRAs or 401(k)s can donate directly from their retirement accounts. A qualified charitable distribution (QCD) is a donation that you make from a retirement account after you turn 70½. Individuals can donate up to \$108,000 annually as a QCD. This is excluded from your taxable income, keeping you out of a higher tax bracket.

#### **Impact on Required Minimum Distributions (RMDs)**

If you have a retirement account and are at least 73, you must take required minimum distributions (RMDs). This is a percentage of your retirement accounts that the IRS taxes as ordinary income. For some, this could push them into a higher tax bracket.

However, giving donations can count toward your RMDs, so you can satisfy the requirements while avoiding higher taxes.

### **Gift Strategies**

Charitable giving can be a part of your estate planning, as you can choose to include charitable organizations in your will. This can reduce estate taxes and simplify the distribution of your assets after you pass. While this won't directly benefit you, it will help your loved ones and the recipients of your estate. It's also a way to leave a lasting legacy of generosity.

### **Other Giving Vehicles**

Donor-advised funds (DAFs) allow individuals to immediately contribute donations to a fund and receive an instant tax deduction. They can invest the money in the DAF for it to grow tax-free, add more to it, or hold it until they find the right organization.

Charitable remainder trusts (CRTs) are another option. Individuals who want to take this route transfer assets, such as investments or real estate, into the CRT, and the income generated goes to the charitable organization for a set number of years. Transfers to a CRT become immediate tax deductions, and assets also avoid capital gains tax.

### **Leave Your Mark With Advantages**

Charitable giving is an excellent way to leave a positive mark on your legacy and help others. To make matters better, it's a strategic component of effective tax planning and retirement planning. If you're interested in giving to others, it's worth it to make sure you can benefit from the act as well.

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