The Retirement Income Store®

NEWS

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TheRetirementIncomeStore.com

During the holiday season, many people look for ways to combine their desire to help the causes they believe in with their desire to save on taxes.

However, thanks to COVID-19, altruism in America has taken a nosedive. According to a recent Gallup poll[1], those who make at least $100,000 a year are giving 5% less in 2020 than they did in 2017, and donations among the less well-off have fallen faster.

Tax law changes have made it harder to take advantage of charitable donations. Nevertheless, if you're able to, there are numerous ways to donate. Thanks to the 2017 tax law, you must be more strategic to make the most of your donations. When considering donating to your favorite causes, you should try these strategies:

- **Gift Your Investments:** Gifting investments is an all-around win – no tax owed, and you may still get a deduction. When you donate stocks you've held for at least a year that have gone up in value, you not only get a deduction on the amount of its current value, but you also won't owe any capital gains. Conversely if your stock sinks, you can sell them and donate the proceeds to charity. This enables you to have a capital loss deduction, which lowers your taxable income.
- **Bunch Your Donations:** Bunching donations to every two or three years might help you overcome the itemizing hurdle at tax time. For example, instead of giving $5,000 this year and $5,000 next year, wait and give $10,000 next year or $15,000 the year after that.
- **Donating Your RMD:** By donating your required minimum distribution, you won't owe income taxes on the donation (but you can't claim a deduction for it). You can give up to $100,000 without owing income tax on the money, but it must come directly from an IRA or 401(k). If you withdraw funds and then donate them, they'll still be considered income.
- **Create a Fund:** Create a donor-advised fund. The fund acts as a mini foundation – allowing you to take a deduction the year it was created but distribute money over time. Even if you're not sure what charities to target, you can deposit the money in the fund and distribute at your leisure.

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[1] https://news.gallup.com/poll/310880/percentage-americans-donating-charity-new-low.aspx

Charitable Giving FAQs

As 2020 draws to a close, charities are ramping up their fundraising efforts. You may be getting more appeals this year due to the pandemic. Wondering how you should approach giving? Here are some answers to commonly asked questions.

How do I know which nonprofits to support?

Selecting an organization is a very personal decision and depends on your values and goals for the gift.

How do I know if the organization is trustworthy?

Charitynavigator.org provides a rating system to help you evaluate the charity of your choice. They rate each nonprofit based on financial health, accountability, and transparency. However, don't be discouraged from donating to a local organization that is advancing causes in your community if they don't appear or are lower on the list.

How can I make sure my gift is tax deductible?

Go to irs.gov to find out. Qualified nonprofit organizations include religious, charitable, educational, scientific, and literary nonprofits as well as those dedicated to preventing cruelty to children or animals.

Is there anything I should be aware of for 2020?

Yes. Due to the CARES Act, in 2020 you won't have to itemize to take a charitable gift deduction. You can take a deduction of up to $300 of cash contributions to charities. The Act also changed charitable contribution limits.

I've had unexpected expenses this year but still want to give back. What can I do?

Giving back can take many forms. Consider donating your time, clothes, or household items that are in good shape but no longer used instead of a monetary gift. Many organizations have lists of things they need on their websites.

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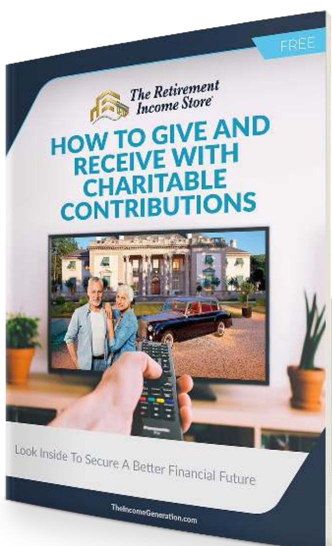
Before pursuing a charitable giving plan, it's important to consider the financial and tax implications of doing so. Discussing the options with your financial advisor, accountant, or an estate planning professional can help you find the best option (or options) for charitable giving that allow you to help maximize gifts while also minimizing potential tax implications. Click here to read our free financial report – *How to Give and Receive with Charitable Contributions.*



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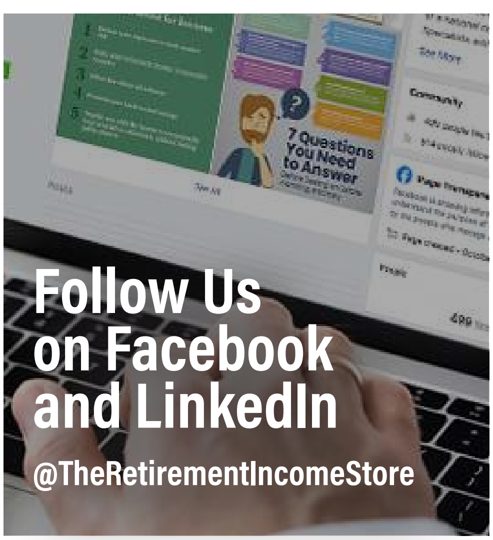

DAVE'S CORNER

Year-End Tax Saving Strategies

By David J. Scranton, Founder and CEO, The Retirement Income Store®

We all know the holiday season is filled with obligations and can go by quickly. However, taking the time to review and revise your financial plan now can pay big dividends in the new year, and managing your taxes is an important part of that process. Here are a few things you can do, even this late in the year, to help minimize your tax bill for 2020.

First, add up your healthcare expenses for the year. Although healthcare costs are only deductible after they exceed 7.5% of your adjusted gross income, in today's age of expensive medicine and high deductibles, you might be surprised by how much you've spent.

If you'll earn $100,000 dollars in 2020, that means any healthcare spending in excess of $7,500 can be deducted. This includes spending on things like dental care, prescription glasses, and even mileage to and from your medical appointments.

Next, give generously and wisely this holiday season. The CARES Act passed by Congress in response to the coronavirus this year created two new tax incentives to encourage donations. The first is a $300 dollar write-off that donors can claim for giving cash to a charity. You can claim it even if you take the standard deduction when you file your taxes.

The second incentive is aimed at donors who itemize when they file and is in effect only for 2020. It allows you to deduct up to 100% of your adjusted gross income for cash donations to public charities, as opposed to the previous limit of 60%. Of course, there are limits and provisions to these rules. Another smart move might be to donate appreciated stock to your favorite charity instead.

This brings up a third potential strategy: dumping bad investments. Tax-loss harvesting, as it's known, is a popular year-end savings strategy that involves selling certain securities at a loss in order to offset your short-term capital gains liability. It's not right for everyone, but can possibly save you money in the short-term.

Each week, on my show *The Income Generation*, we cover many of the topics that are most important to those who are retired or nearing retirement. Since every person's situation is different, viewers often have questions.

That's why the social media pages for The Retirement Income Store include an Ask Dave forum – which I'm happy to be able share with you in our newsletter.

Today's question is about investing for income. This person asked: "Dave, I have about a quarter of a million dollars in savings. How should I invest this money for income?

I've included this question because it's really the question: the one we strive to answer for our viewers every week on *The Income Generation*. It's a good question because it tees up a broader discussion about the universe of more conservative, income-generating financial strategies—which include things like fixed annuities, individual government bonds, municipal bonds, corporate bonds, preferred stock, and CDs.

If you're willing and able to take on a bit more risk, your options can include business development companies (BDCs), real-estate investment trusts (REITs), or even some high dividend-paying value stocks.

What these options all have in common is that they are designed to generate income through interest or dividends at competitive rates of return. That's income you can use to meet your needs and goals. Alternatively, if you don't need it, you can reinvest it in other income-generating strategies to grow your portfolio the old-fashioned way.

Now, getting back to the question: the caller specified he had about $250,000 dollars in savings. Is that enough? Well, the answer is going to be different for every individual depending on many factors – particularly your specific retirement goals.

The bottom line is that in many cases, your lump sum amount is less important than whether you've made that shift from investing for portfolio growth to investing for retirement income. If you are retired or nearing retirement, and haven't made this important shift, perhaps you should add it to your list of New Year's Resolutions for 2021.

Happy Holidays,
David Scranton