

A GUIDE TO

Navigating Retirement

JUNE 2024 NEWSLETTER

The \$10,000 cap for the State and Local Tax (SALT) deduction means many taxpayers no longer itemize deductions when filing their income tax returns.

Many taxpayers' state and local income taxes and their property taxes exceed \$10,000. Nevertheless, \$10,000 is all that can be deducted! Other commonly itemized deductions are home mortgage interest and charitable contributions. If the total of all allowable deductions is less than the Standard Deduction (\$14,600 for single filers and \$29,200 for joint filers), the Standard Deduction is used.

For some taxpayers, the Standard Deduction is a larger deduction than what can be itemized, thus lowering the income tax liability.

The itemized charitable deduction was the tax code's way of thanking you for your philanthropy, but the SALT cap might preclude the itemization of your charitable gifts. Fortunately, there are a few ways to be charitable and still reduce your taxes.

- Reduce your IRA's and 401K's Required Minimum Distributions dollar for dollar by giving to charity using a Qualified Charitable Distribution (up to \$105,000 annually). The net effect of a QCD is that 100% of your contribution is deductible. (Some IRA custodians allow check writing to make such gifts easy and in small amounts.)
- Do not give cash to charity; instead, give appreciated stocks, ETFs, or mutual funds. You do not pay any taxes on the unrealized gain, the charity does not pay income taxes, and the appreciated market value of the security is the amount of your gift.
- Even if you do itemize deductions, the QCD and gifting of appreciated securities have advantages, including reducing your Adjusted Gross Income that determines your Medicare premiums.
- Gift several years of charitable contributions to a Donor Advised Fund, thus increasing the total dollar amount of your itemized deductions. Most of your charitable contributions will then be deductible. From the Donor Advised Fund, gift to your favorite charities over several years the annual amounts you would have made directly.
- Testamentary charitable gifts should generally be made first directly from your non-Roth IRAs and 401Ks.

Other sophisticated strategies exist that can be part of a larger estate plan—and most appropriate for very large charitable gifts.

Whether or not your charitable gifts are deductible, charitable giving is very important. The needs in our society today are great, and often those needs can only be met by the generosity of those much more fortunate. Philanthropy is one way to express your appreciation for your good fortune.

Assess your ability to make charitable gifts without compromising your long-term retirement income by undertaking a [Cash Flow Study](#).

Your legacy need not be defined only by the monetary gifts (if any) you make during your lifetime and/or through your will or trust. Many options exist for you to make a difference in this world and to be remembered: community service, mentoring, and interactions with friends and family.

Topic #16 in *A Guide to Navigating Retirement* discusses legacy planning. Topic #2 discusses setting retirement goals—one of which might be to cement your legacy through gifting and social interaction.



Ask Fred for a free copy of the *Guide* if you need one for yourself or a friend.

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