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FINANCIAL PLANNING

Don't itemize? Giving back to charities in Kansas, Missouri may still reduce tax bill

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I was recently interviewed for a large senior living organization's newspaper and asked for my best tax tip.

Here's one that we CPAs get in almost every issue of our own monthly journal, in the classified section, way in the back. Specific local charities advertise that they'll give you a tax credit on your state taxes if you donate. The states of Missouri and Kansas allocate these tax credits to specific charities to pass along to donors.

If you still itemize deductions, you get a charitable deduction on your federal tax return. On your state tax return, that deduction is backed out, but the charity's tax credit reduces your state tax bill dollar-for-dollar. You may no longer itemize if you're married and file jointly since the standard deduction is high. However, you can still benefit from that dollar-for-dollar credit against your state taxes.

Some of my clients and

I have long donated to these local charities. The credits are not well-known. How does it work? If you donate, say \$2,000, to one of these charities you get a state tax credit for 50%, or \$1,000.

Both Kansas and Missouri endow specific charities each year with credits which they in turn pass along to businesses and individuals for donating. Where do you find these charities? Kansas labels this as the Community Service Program and keeps their list here, www.kansascommerce.gov/program/community-programs/csp/, on their Department of Commerce website. Look under "Program Awardees." Kansas also has an Individual Development Account (IDA) program which returns credits for 75% of the donation; information is here at www.kansascommerce.gov/program/taxes-and-financing/ida/.

Missouri lists charities in categories here, dor.mo.gov/tax-credits, on the Department of Revenue website. You'll need to do more digging but the number of charities is larger. Categories such as Food Pantry, Maternity Homes, Family Development, Neighborhood Assistance, Youth

Opportunities and others have details.

These local charities often re-appear on the Kansas and Missouri lists in successive years. I've donated to two to three local charities for several years now. Some of my clients have favored their own charities, snaring similar tax credits. You'll want to plan early in the year to check if these local charities serve your own philanthropic interests. Then contact the charity. Those credits often get used up fast. Here's an added perk: Charities will sometimes notify repeat donors when the charity has received a new allocation of credits from the state, or when they have a few remaining credits carried over.

Two tax strategies can further enhance your savings.

First, you can usually donate appreciated securities from your taxable brokerage account rather than cash. You'll want to ensure the charity has a brokerage account and has gotten approval to accept securities as donated funds. That strategy saves you from paying taxes on the embedded capital gains in the securities you're donating.

Second, you may be able to use a qualified

charitable donation from your IRA for the donation. That's one of the few types of withdrawals from an IRA where you don't get taxed. If timed properly, this can also satisfy part of a required minimum distribution for that tax year.

What are the mechanics? I can personally speak to Kansas where donors are required to complete and submit the "Tax Credit Application for Contributions" form to the charity, which in turn processes and submits it to the state. Kansas then reviews and issues you a "Tax Credit Certificate ID" number with the amount of tax credit approved.

When you file, both are entered in Other Credits, K-60 Community Service Contribution (or K-68 for the Individual Development Account (IDA) credit). A fellow CPA has used Missouri's Form MO-FPT for donations to Food Pantries; that's a single page completed by the charity and the donor, and simple enough.

Go local. These charities help us build strong communities. Smart charitable giving can multiply your tax savings while you're building meaningful relationships with our local charities.

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