Tax Reform Cuts Charitable Deductions… … But with Some Planning, Donors Can Still Write-Off Gifts, Particularly in 2017

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For the past century, the US tax code has been a powerful driver of philanthropy, by rewarding generosity. That's poised to weaken with passage of the Tax Cut and Jobs Act of 2017, which will effectively reduce the number of taxpayers able to deduct charitable donations. The new rules also impose a tax on large university endowments, and make changes to the estate tax that could adversely impact many non-profit organizations.

What can donors do? Fortunately, with some extra planning, there are still ways that donors can receive tax benefits. **Some of these will expire in 2017 so it's critical to act fast**. Donors should always consult their tax advisors, but the following are strategies to discuss with them:

- **Just keep giving** Under the new law, many organizations serve vital public needs may find it more difficult to collect donations and do their work. Donors should be mindful of this, and continue giving even if they no longer benefit from tax savings. The new tax law essentially "bakes-in" higher tax deductions for most taxpayers (by increasing the standard deduction), so many families may find it within their means to continue contributing even without the tax savings.
- **"Front-load" donations in 2017** The new tax law won't go into effect before 2018, so donors can still take advantage of the long-standing, more accessible tax incentives *if* they give *before* the end of the year (effectively, Friday Dec. 29, 2017). As we near year-end, donors who would make additional contributions in 2018 may be able to increase their write-offs by giving this year instead, while the current tax code is still in effect.[1]
- **Consider "batching" future donations** The new law doesn't *eliminate* charitable tax write-offs, but it makes it harder to take them (by increasing the threshold for itemized deductions).[2] In many cases, "batching" — or combining two or three years' donations into one year — can increase the likelihood of reaping tax savings.
- **Gift highly appreciated equities** By gifting stocks or other investments that have a low cost-basis, donors can avoid high capital-gains tax payments. In doing so, donors can effectively contribute up to 20% more, with the same financial impact. (Note: In the version of the bill sent to President Trump, Congress eliminated a FIFO rule that would have forced taxpayers to donate their oldest shares first. The final bill is consistent with the previous law, which enables taxpayers to donate shares with the lowest cost-basis.)
- **Contribute via an IRA rollover** The IRS allows individuals over 70.5 years of age to make gifts directly from their IRA accounts, thereby avoiding income taxes on the distribution. This approach effectively enables taxpayers to write off contributions without having to itemize.

[1] The IRS imposes certain maximum donation write-offs. The new tax law increases the limits for cash gifts from 50% to 60% of adjusted gross income, and eliminates the "Pease limitations" that had capped itemized deductions for higher income earners.

[2] Charitable contributions can be written off by taxpayers who itemize their taxes rather than taking standard deductions. Under the new law, itemization may benefit families whose itemizations exceed $24,000 (or $12,000 for individuals). Itemization will typically include: state, local or property taxes (up to $10,000) + home mortgage interest (on up to $750,000 in debt) + charitable contributions.

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