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TAX ALERT

JANUARY 25, 2018

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Impact of Tax Cuts and Jobs Act on individual charitable giving

While presumably most charitable giving is out of pure goodness of heart, the recent Tax Act may impact charitable giving. Because fewer people will be itemizing their deductions, fewer people will get a federal tax benefit from a charitable contribution. This law alert will address issues impacting charitable giving that were and were not impacted by the Tax Act, as well as some planning thoughts.

Things that were not impacted by the Tax Act:

- Charitable contributions are still subject to strict receipt and acknowledgment requirements, and large non-cash contributions have appraisal requirements
- Charitable contributions are still taken as an itemized deduction on Schedule A of the Form 1040
- If a taxpayer does not itemize their deductions the taxpayer gets no federal income tax benefit from a contribution
- In order to itemize, a taxpayer still would have to have more itemized deductions than the standard deduction (which was scheduled to be $6,500 single and $13,000 married filing jointly for 2018)
- Itemized deductions still include state and local taxes (subject to a $10,000 limit), mortgage interest, charitable deductions, investment expenses, medical expenses (over percentage limits) and others

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Planning note:

A taxpayer planning to give $5,000 per year over the next five years might give it all on one year to exceed the standard deduction limit, or make a $25,000 donation to a donor advised fund in year one and have the fund consider making $5,000 donations over five years.

Planning note: A study has shown that prior to the Tax Act, approximately 26 percent of taxpayers itemized and after tax reform approximately 10 percent will itemize (Source: Forbes/White House Council on Economic Affairs)

The tax deductibility of charitable contributions was impacted in at least five ways by the Tax Act:

1. The standard deduction has been raised to $12,000 single, $18,000 head of household and $24,000 married filing jointly
2. State and local taxes may only be deducted up to $10,000 in the aggregate
3. Tax rates are somewhat lower thereby creating less of a deduction (particularly corporations where the rate is now 21 percent)
4. The estate tax exemption was increased to $11 million per person
5. Donors may receive a tax deduction for cash gifts up to 60 percent of adjusted gross income, up from 50 percent

The new Tax Act will dramatically reduce the amount of people able to receive a federal deduction for their charitable contributions because approximately 20 percent less taxpayers will itemize their deductions.

Solutions or alternatives?

- Overall lower rates may increase disposable income and therefore increase contributions
- Grouping deductions in one year may allow a taxpayer to exceed the standard deduction for that year and claim the standard deduction in other years
- Make large contributions to donor advised funds and private foundations that are deductible in year one, then have the fund contribute over multiple years
- Taxpayers may still make qualified charitable distributions directly from an IRA to a charity for those over 70 ½ up to $100,000

For more information or assistance, please contact Dave Tumen, Ned Segelken or any member of Porter Wright's Tax Practice Group.