What the New Tax Law Means for Your Charitable Giving

By Chuck Wienckowski, CPA/PFS, CDFA®, AEP®

The Tax Cuts and Jobs Act was signed into law by the President on December 22, 2017. For tax years 2018 through 2025 the new law almost doubles the standard deduction for individuals, couples and heads of households to $12,000, $24,000, and $18,000 respectively. Taxpayers have the option of utilizing the larger of itemized deductions or the standard deduction. Itemized deductions include expenditures for medical expenses, state and local taxes, mortgage interest and investment interest, and charitable contributions, just to name a few.

Charitable donations have historically been one of the most popular itemized deductions. However, under the new law, most lower and middle-income taxpayers may not have enough total itemized deductions to exceed the higher standard levels.

Estimates report that 18 million households will itemize deductions in 2018, down from more than 46 million last year. Without the itemized deductions most people will lose all tax benefits relating to charitable giving.

For charitable contributors unwilling to let go of that tax break, there are alternatives around the new rules.

One technique is known as “bunching.” Instead of donating every year, you might give a larger amount every other year. For example, instead of giving $6,000 to charity annually, increase the gift by donating $12,000 every two years. This may result in itemizing in one year and taking the standard deduction the next.

Another strategy is the use of a donor-advised fund. These funds permit you to make a charitable contribution and receive an up-front tax deduction for the full donation, and then direct grants from the fund to your favorite charities over time. For example, contribute $10,000 to a donor-advised fund; receive a one-time tax deduction; and spread the donations to your favorite charities over the next several years.

Taxpayers age 70 ½ and older might consider a direct transfer of up to $100,000 from their IRA (Individual Retirement Account) to a qualifying charity. These Qualified Charitable Distributions (QCD) can be a tax-efficient way of satisfying your required minimum distributions (RMD), and you don’t need to itemize your deductions to benefit. In fact, the direct transfers to charity are not included in income, nor are they an itemized deduction. Since the adjusted gross income is not increased by the transfer, other benefits may result. These positive benefits might include (a) reducing the taxable portion of social security benefits, (b) avoiding possible increases to the amount of Medicare premiums, (c) minimizing the application of the 3.8% Medicare surtax on net investment income, (d) increasing the deductibility of passive losses, (e) increasing the new Section 199A 20% deduction for pass-through entities, and (f) increasing the deductible portion of medical expenses, and several others.

Finally, consider making non-cash charitable donations with stocks or other appreciated assets. The amount of the deduction is the asset's fair market value at the date of gift, not the historical cost. For example, assume that IBM stock is purchased 10 years ago for $5,000 and at the date of the contribution it is worth $15,000. The amount of the tax-deductible contribution is $15,000, and you have avoided a capital gains tax on the $10,000 appreciation.

If you would like to discuss what the new tax law means for you, please contact Kelly CPAs and Consultants, LLC at 410-893-0560.