WHAT DONORS AND CHARITIES NEED TO KNOW ABOUT THE 2017 TAX REFORM ACT

AS MANY OF YOU KNOW, THE TAX CUTS AND JOBS ACT (THE ACT) OF 2017 HAD SWEEPING TAX LAW CHANGES THAT WE HAVEN'T SEEN IN NEARLY THREE DECADES.

The Act contains a number of changes that could impact charities and their donors. In this article, we will focus on three major changes that donors need to consider in their annual tax planning.

1. Tax rates for individual taxpayers, defined as those filing as single or head of household, and those filing jointly, were reduced. Taxpayers will have more after-tax income to save, spend or contribute to charity.
2. The standard deduction increased to $12,000 for single taxpayers and $24,000 for joint filers. This change is expected to allow many more taxpayers to simplify annual filing. No longer will they need to account for itemized deductions such as charitable contributions, state income and real estate taxes on their residence and interest on qualified mortgage indebtedness. Because the standard deduction was increased, many taxpayers' total itemized deductions will no longer exceed the standard deduction threshold, leaving these deductions worthless for tax filing purposes. If charitable deductions are no longer deductible, there is concern that this will impact the level of giving. In fact, some experts predict that overall charitable giving will decrease 4-8% annually. For some taxpayers, a "bunching" strategy may be employed where they make multiple years of donations to a charity, or to a donor advised fund, to allow for their itemized deductions to exceed the increased standard deduction in certain years. This strategy will help them restore this deduction in 2018 and beyond.
3. There are some notable changes that impacted businesses. Business tax rates were reduced with minor exceptions for corporations, that historically were in the lowest brackets. Again, businesses and their owners should have more after-tax income at their discretion. At the same time, the deduction for business entertainment expense was eliminated. Businesses will frequently entertain customers at an event sponsored by a charity. In 2018, this may no longer be a deductible expense. Donors could consider other ways to participate in these events through advertising or sponsorship opportunities.

For donors, charitable strategies that were available prior to the Act remain. Taxpayers who are required to take distributions from their IRA can make direct charitable contributions. Taxpayers can also continue to contribute appreciated assets to charity and receive a tax deduction for the full market value.

In summary, it is important for taxpayers to plan and preserve the tax benefits of their giving. This will help preserve the important work of their favorite charities.

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