Charitable Giving Strategies under the Tax Cuts and Jobs Act

The 2017 Tax Cuts and Jobs Act (TCJA) made changes to tax laws, impacting individuals and businesses as well as charitable organizations. The last major tax reform was enacted in 1986.

While the TCJA tax law technically preserved deductions for gifts made to charitable contributions, the standard deduction when filing taxes was increased. As a result, many taxpayers will find it more beneficial to take the standard deduction, rather than to itemize, even if they donate money to a charity. In 2018, the standard deduction for tax filers who are married and filing jointly is $24,000. For single filers, the standard deduction is $12,000.

The strategies below outline ways to give that benefit not only charitable organizations, such as the Milwaukee Center for Independence:

1. **Bunching of charitable contributions**—With bunching, a taxpayer groups their deductions for a two or more year period into one year and then, in another year, the taxpayer claims the standard deduction when filing. Overall, the total amount of charitable gifts are the same. The only thing that has changed is the timing of those gifts as deductions when the taxpayer files, along with the resulting tax savings. The charts below illustrate the impact of bunching.

Joe and Mary's Charitable Giving without Bunching; Filing with the Standard Deduction

Deductions	Year 1	Year 2
Charitable Contributions	$15,000	$15,000
Mortgage Interest	$10,000	$10,000
Medical Expenses & Other Miscellaneous Deductions	$0	$0
Total	$25,000	$25,000
Standard Deduction Both Years	$24,000	$24,000
Total Deductions Over 2 years	**$50,000**	

Joe and Mary's Charitable Giving with Bunching; Itemized Deductions

Deductions	Year 1	Year 2
Charitable Contributions	$30,000	$0
Mortgage Interest	$10,000	$10,000
Medical Expenses and Other Miscellaneous Deductions	$0	$0
Total	$40,000	$10,000
Alternate Itemized and Standard Deduction	$40,000	$24,000
Total Deductions Over 2 years	**$64,000**	

Following the bunching strategy, Joe and Mary could benefit from several thousands of dollars in overall tax savings, depending on their tax bracket.

2. **Appreciated Property Gifting** –For taxpayers who have itemized deductions greater than $24,000 (married, filing jointly) or $12,000 (single filers), one of the greatest tax advantages in charitable giving is the tax benefit donors receive when donating appreciated assets instead of cash. Contributing appreciated stock (or stock that has been held for more than one year), the donor receives a charitable deduction for the full fair market value of the stock and avoids all capital gains taxes.

   Consider the following:
   Denise is married and owns 100 shares of IBM stock with a fair market value of $12,000. She purchased her stock five years ago for $5,000. Instead of selling her stock which results in capital gains of $7,000 which is taxed, Denise donates her IBM stock to her favorite charity. If she takes the standard deduction of $24,000 when filing her 2018 taxes, she has no additional capital gains to be taxed. If Denise's deductions are greater than $24,000 and she still plans to itemize, donating her IBM stock to her charity will show no capital gains to be taxed and she has $12,000 toward her itemized deductions.

3. **Charitable IRA Rollover**—Individuals can make Qualified Charitable Distributions (QCD), otherwise known as an IRA charitable rollover. A QCD can only be made on or after the date a taxpayer has reached age 70 ½. The distribution must be paid directly to the public charity. Private foundations and donor advised funds do not quality as a QCD recipient. Individuals over 70 ½ generally are required to take a minimum amount of their IRA every year. While the taxpayer cannot use a QCD as a charitable deduction, tax savings comes from excluding the amount of the QCD as income. The QCD does satisfy an individual minimum distribution requirement.

4. **Bequests or Planned Giving**—If individuals have sufficient assets which may be subject to an estate tax, a gift to a charity made through a will, estate plan or other legal document can reduce an estate tax burden to heirs/beneficiaries.

   In addition, assets in an IRA, 401(k) or other qualified retirement plan will be taxed when the beneficiaries take the money out of the inherited IRA. Naming a charity as a beneficiary will avoid tax that would otherwise be owed by estate heirs. This technique allows an individual to donate money to a charitable organization and leave their beneficiaries wealth in the most tax efficient manner. This allows a person to make a significant contribution to a charitable organization that may not have otherwise been practical during one's lifetime.

   While the cliché is *charity should begin at home*, the reality is that charity is truly an act of kindness, made from the heart. Gifts can make the lives of others better, helping neighbors to thrive and become more independent. Consult with your financial or legal advisor for more information about charitable giving. To make a gift to the Milwaukee Center for Independence, feel free to contact Teri Zywicki, 414-937-3998, teri.zywicki@mcfi.net or Kasey Chard, 414-937-2085, Kasey.chard@mcfi.net.