

Making Lemonade? Charitable Giving Strategies in 2018 and Beyond



Sarah Ruef-
Lindquist,
JD, CTFA

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The Tax Relief and Jobs Creation Act that was signed into law at the close of 2017 is touted as the most extensive tax reform legislation since the 1986 Tax Act, which I came to know early in my professional career as a lawyer and philanthropic advisor. In the 1986 act, there was a lot we took for granted in the itemized deduction world, including the once sacred charitable income tax deduction for itemizers. Essentially losing that deduction because of the dramatic increase in the standard deduction has become cause for concern for the charitable sector. [I've written before](#) about why that might be misplaced, but I want to focus here on what strategies have not changed in that legislation that still are powerfully tax efficient giving strategies that support annual funds and planned giving alike. For those age 70 $\frac{1}{2}$ or older with IRAs they can give up to \$100,000 total to charity or charities in any given year without having to recognize the income tax that would otherwise be payable on distributions. Why? Because a direct Qualified Charitable Distribution (QCD) can be excluded from income. That's a significant amount of potential philanthropy. A donor could take advantage of the QCD method to make annual gifts, or a larger planned gift. I often advise clients who are eligible

to do this kind of gifting even when itemizing the gifts for a deduction is an option, because it's potentially more tax efficient.

When one receives a distribution from their IRA and then makes a gift from the proceeds on which they will be taxed, they may increase their Adjusted Gross Income in a way that exposes one to a higher level of income tax on Social Security Benefits. They may also bump themselves into a higher income and/or capital gains tax bracket. One of the best features of this strategy is that donors can use their Required Minimum Distribution (RMD) that they must otherwise withdraw from their IRA to make these gifts. The result? That income that was put aside without tax will become a charitable gift without deducting any tax, which many people find compelling.

If you are age 70 $\frac{1}{2}$ or older, or work in development and have donors in this age demographic, consider the QCD option and what it could mean for you or your organization's donors. As with all gifting strategies, be sure to obtain competent, independent legal and tax advice before making a significant charitable gift.

2017 Tax Reform and charitable giving: "Doom and Gloom" or perhaps just "Meh?"

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There has been an income tax charitable deduction in the US since 1917. For 100 years, those who itemize deductions have

been able to take a deduction for gifts to charities, with some limitations based mostly on a taxpayer's adjusted gross income. We have all been reading about the change in the individual income tax laws, the doubling of the standard deduction and the predictions about the impact on charitable giving. A November 16, 2017 Forbes article on line cited a potential impact of as much as \$13 billion less in charitable giving as a result of the doubling of the standard deduction, with the amount of itemizers decreasing from 33% to 5%, according to the Tax Policy Center cited in the article. This assumes that what motivates charitable giving is a tax deduction.



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Lindquist,
JD, CTFA

According to the Giving in Maine 2017 [\[1\]](#) report of the Maine Philanthropy Center, regarding 2015 "Declared charitable deductions represent approximately 80% of total dollars given by individuals" meaning there's another 20% who don't itemize, but still give. We are all familiar with the pattern of giving late in December, before the end of the year. Charities do get the majority of their gifts from individuals during the last two months of the calendar year, suggesting a tax motivation for giving.

But do the 80% Mainers who itemize give because they get a tax deduction? I don't think so. How do you explain the other 20% that do give, and still don't itemize? A deduction is a nice benefit, but if it were truly the motivator, only people who got a deduction would make gifts, and we know that is not the case. I believe that people give to charities because they believe in the importance of work that the charity is doing, and want to support it. The fact that they can get a tax deduction is icing

on the cake, but not the real reason they give. I predict that rather than there being a drop of \$13 billion in giving in 2018, without the incentive to deduct a charitable gift, there will be an increase in charitable giving, because if people have more to give, they will give more. I know that if I were sitting down to write my charitable gift checks today, and there was no tax incentive for me to do so, I would still write those checks. And if I knew my tax liability for the year was going to be smaller, because the standard deduction I can use is larger than my historic itemizations AND I had a lower tax rate, I might actually make my charitable gifts larger, because I could. That should be the case a year from now.

Giving USA^[2] reported in 2017 that in 2016, total charitable giving in the US was \$390.05 billion, 72% of that from living individuals. The figures for 2017 won't be out until around June of 2018, and the figures for 2018 won't be available until a year after that, so we won't know for a while what impact – positive or negative – 2017 tax reform may have. Let's all remember why we support charitable causes with our gifts, and that in years when we have even more to give, we might just plan to give more.

^[1] <https://www.maine philanthropy.org/MEgivingreport>

^[2] *Giving USA is Giving USA 2017: The Annual Report on Philanthropy for the Year 2016*, a publication of Giving USA Foundation, 2017, researched and written by the Indiana University Lilly Family School of Philanthropy. Available online at www.givingusa.org.