Reinhart

Maximizing Tax Benefits While Satisfying Philanthropic Goals: Options to Consider When Donating to Charity in Light of the Tax Cuts and Jobs Act

According to an annual report released earlier this year by *Giving USA*, Americans donated approximately $428 billion to U.S. charities in 2018. Studies show that the leading motivations behind donations include: belief in a mission; a desire to make a difference; personal satisfaction and fulfillment; family tradition; a sense of giving back; and religious beliefs. While reaping a tax benefit may not be a leading motivation, there are nevertheless tax benefits that donors should keep in mind while satisfying charitable goals.

Signed into law on December 22, 2017, the Tax Cuts and Jobs Act ("TCJA") affects the tax benefits that donors realize for gifts made to charity in the following ways. A donor is now able to deduct up to 60% (instead of 50%) of his or her adjusted gross income when donating cash to a public charity. This increase is temporary, and will revert back to 50% on January 1, 2026. In addition, the TCJA increased the standard deduction. In 2019, the standard deduction for single filers is $12,200, and for married taxpayers filing jointly it is $24,400. These increases to the standard deduction have raised the concern that charitable donations will decline, individually and nationally, as more taxpayers will claim the standard deduction instead of itemizing deductions (which includes the charitable deduction). However, the standard deduction increase is also temporary, as it will revert to pre-TCJA levels on January 1, 2026. These and other changes made by the TCJA could impact how you approach charitable planning.

As we enter the season of giving, there are some things to be mindful of in light of the changes made under the TCJA so you can receive favorable tax treatment while satisfying philanthropic goals. Whether you want to donate on an ongoing basis or during a specific timeframe, there is a wide variety of vehicles and options to consider:

1. Outright Gifts. As stated above, a donor can now deduct up to 60% of his or her adjusted gross income for outright cash gifts made to public charities. Donors may want to take advantage of this heightened limit before it

POSTED:

Oct 25, 2019

RELATED PRACTICES:

Trusts and Estates
https://www.reinhartlaw.com/practices/trusts-and-estates

RELATED SERVICES:

Estate, Gift and Generation-Skipping Transfer Tax Planning
https://www.reinhartlaw.com/services/tax-planning

Trust, Estate and Fiduciary Litigation
https://www.reinhartlaw.com/services/trust-estate-and-fiduciary-litigation

Trust Services
https://www.reinhartlaw.com/services/trust-services

Charitable Contributions and Planning
https://www.reinhartlaw.com/services/charitable-contributions-and-planning

Estate Planning
https://www.reinhartlaw.com/services/estate-planning

Gift and Estate Tax Audits
https://www.reinhartlaw.com/servic

returns to 50% after 2025. Donors can also gift stock to charity. While gifts of stock are subject to lower deductibility limits, a donor can reduce or avoid capital gains tax on appreciated stock by donating it to charity. Whether the charitable gift takes the form of cash or stock, donations in excess of the applicable percentage limit are not immediately lost—excess amounts that cannot be deducted in the current year are carried over to be deductible over the next five years or until the remaining balance is exhausted.

es/gift-and-estate-tax-audits

2. "Bunching." With the standard deduction so high under the TCJA, "bunching" is now a viable option. Bunching involves consolidating multiple years of charitable donations into one, thereby exceeding the standard deduction in the current year while using the standard deduction in subsequent years. For example, if you intend to donate $10,000 per year over the next five years, donate $50,000 in the current year to beat the standard deduction so you can itemize deductions in the current year. In the years immediately following this large gift, you can then use the standard deduction. However, donors taking the standard deduction in years after making a significant donation must be aware that IRS regulations might cause forfeiture of all or part of a carryover amount that is less than the standard deduction in those subsequent years.
3. Qualified Charitable Distribution. A donor over age 70½ is permitted to move up to $100,000 per year from his or her IRA to an eligible public charity. The amount "rolled over" to the charity is not included in the donor's income. In this way, a qualified charitable distribution acts like a deduction, even if the donor does not itemize deductions. A qualified charitable distribution also does not count towards the charitable deduction percentage limits, meaning that the donor is entitled to the full deductibility limits for other donations made (i.e., outright gifts of cash or stock) even if the qualified charitable distribution amount is maximized.
4. Charitable Remainder Trust. A charitable remainder trust is a tax-exempt irrevocable trust that provides an income stream to the donor (or other individuals) for life or for a period of time not exceeding 20 years, with the balance passing to a specified charity. A taxpayer who creates a charitable remainder trust can take an immediate income tax deduction for the interest that will pass to charity, and he or she can also defer taxable gains about to be realized. Donations made to a charitable remainder trust are generally larger, enabling the donor to beat the standard deduction.
5. Entity Creation. A donor-advised fund or a private foundation can be useful vehicles for charitable donations. A donor-advised fund is an arrangement

whereby a donor gifts assets to an account held by a charitable foundation. The donor then provides recommendations on how to distribute such funds. A private foundation is an entity funded and controlled by an individual or a family that uses its funds to support charitable activities and/or organizations. These entities can endure for years, allowing the founder to carry on his or her legacy long after death.

Reinhart Trusts and Estates attorneys understand how integral charitable giving can be in an individual's or a family's overall planning. We are experienced in guiding clients through the many options available, including those discussed above. With year-end approaching, it is time to explore your best—and most tax-efficient—options to satisfy your philanthropic goals.