TAX REFORM MAY BRING A NEW STRATEGY FOR END OF YEAR GIVING

Charitable giving may get a shot in the arm. The new tax reform law has raised the standard deduction to $12,000 for individuals and $24,000 for married couples and has reduced some itemized deductions. Deductions for state, local, and property taxes have been capped at $10,000, leaving charitable giving as one of the remaining available deductions. In addition, the limit on what people can deduct is increasing from 50% to 60% of adjusted gross income (AGI).

Overview

Due to these changes, the IRS is expecting only 10% of taxpayers to continue itemizing deductions because it makes sense due to their income levels. For many, this may simply mean that charitable gifts most people will make to the community or through their tithes to their churches and other expenses that once were deductible are no longer deductible. But it doesn't have to be that way.

Thinking strategically, families can still plan to donate to charity in a way that can both help them retain their commitments and tax deductions at the same time. One way for that to happen is to choose to make a gift equal to a multiple of years of their normal giving into a Donor Advised Fund (DAF) and then direct the DAF to continue disbursing the funds over the next 3–5 years.

Let's say a couple is used to making charitable gifts of $24,000 per year, which happens to equal the maximum standard deduction. If they made a gift to a DAF in year one equal to $120,000, assuming they had no other itemized deductions, they would receive a deduction for the full amount. Then they would direct the DAF to make distributions to their designated recipients in the amount of $24,000 per year beginning in year one. In subsequent years 2-5, while they would not receive additional deductions for the DAF gifts, they would still have the standard deduction of $24,000 per year regardless of whether they had any other expenses to itemize.

From a tax standpoint, this may compare more favorably to writing the check out of pocket each year and receiving no additional deduction than the standard deduction. That means potentially $96,000 of additional deduction in year one with the same amount of annual gifts to charity.

Donor-advised Funds

Donor-advised funds are investment accounts with a charitable purpose and are becoming more popular. According to the IRS, "a donor-advised fund is a separately identified fund…that is maintained and operated by a section 501c3 organization…. Once the donor makes the contribution, the organization has legal control over it. However, the donor…retains advisory privileges with respect to the distribution of funds and the investment of assets in the account."

Part of the allure is that an individual can make a charitable donation to a donor-advised fund and both receive an immediate tax benefit and have the flexibility of disbursing the money when they

see fit. As mentioned above, many DAFs allow contributors to donate not only cash but also publicly traded securities, mutual fund shares, Bitcoin, real estate, and other assets. Donating long-term appreciated assets directly to charity can result in tax benefits, such as not having to pay a capital gains tax.

Another dimension to this type of strategy is Legacy Giving. Legacy Giving can become an important component of a family financial plan and one that we are beginning to discuss more often with our planning clients. Families have had the ability create private foundations for decades but the perception is that these really relate to families with $100 million of wealth and up. Today, the option of a DAF brings the reality of this type of perpetual family giving to a much larger base of people on a much more efficient and economical basis. This is due to reduced administration burden, lower costs, no required tax returns or reporting (for the account holder), preferred income tax treatment for contributions, due diligence reviews for grants, no minimum distribution requirements, and no excise tax on net investment income.

The new tax law may not only increase motivation for charitable giving in strategic ways but also provide families a new way to create a legacy together.

Please consult your tax advisor to determine whether a DAF would be advisable for your situation.

Would you like to learn more about investing in a donor-advised fund? Please contact our Individual Financial Consulting team at (210) 538-2500 or FinancialConsulting@BFGonline.com.

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