The Tax Reform Act and Charitable Giving

Clocking in at 503 pages, the new tax law will take effect on January 1, 2018. The provisions relating to individuals are set to expire at the end of 2025. That means that unless Congress acts before then to extend the provisions or make them permanent, in 2026 the current (2017) law would be back in effect. Provisions related to business taxes do not have an expiration date.

What is in the Law that Affects Charitable Giving?

(1) The charitable deduction will be retained. Other itemized deductions will be eliminated or subject to limitations. State and local taxes will be deductible only up to a combined annual limit of $10,000. Deductions for mortgage interest will be limited to $750,000 of debt for those married filing jointly.

(2) The law increased the standard deduction to $12,000 for singles, $24,000 for married couples filing jointly, and $18,000 for heads of households. Your deductions (including your charitable deductions) will not reduce your income tax unless their total exceeds your applicable standard deduction amount.

(3) There is an increase in the adjusted gross income (AGI) limitation on charitable gifts of cash to public charities Mercy Foundation from 50% of AGI to 60% of AGI. The AGI limitation on charitable gifts of appreciated property to public charities Mercy Foundation will remain 30% of AGI. If you itemize, you will continue to be able to carry forward deductions subject to either limitation for up to five years.

(4) The gift tax, estate tax, and generation skipping tax will continue and estates will still be entitled to an unlimited estate tax deduction for charitable gifts. However, the exemption amounts for each of these taxes will double to $11.2 million per individual, ($22.4 million for gift and estate tax for married couples).

(5) The law repeals the 80% charitable deduction for gifts made in exchange for college athletic event seating rights.

How will the Tax Reform Act affect you and your charitable giving?

While there will be an increase in the number of individuals claiming the standard deduction, if you live in a state with high income and property taxes and you have a mortgage, you could find that you still itemize and thus can make use of your charitable deductions.

Even if you don't itemize, here are some strategies to make gifts to charity and still receive tax benefits:

- <u>Make gifts of appreciated property such as publicly-traded securities to charity.</u> The new law will still allow you to make gifts of appreciated assets held for at least one year without triggering capital gain tax. If you itemize your deductions, you will get the double tax benefit of an income tax charitable deduction based on the full value of your appreciated assets in addition to capital gain tax avoidance.

- Make gifts to charity using the charitable IRA rollover. If you are over 70½, you can make a direct transfer from your traditional IRA or Roth IRA to charity of up to $100,000. You will avoid all income tax on your withdrawal, even if you don't itemize after the new law!
- You can make larger gifts to charity. Your total deductions may put you close to the threshold where itemizing your deductions offers greater tax benefits than taking the standard deduction. In this case, you might consider making a larger charitable gift so that you can enjoy the additional tax savings that itemizing would offer.
- Include a gift for charity from your estate. The new tax law retains current law and does not impose limits on estate tax charitable deductions. If you have sufficient assets and may be subject to estate tax, you might consider a gift to charity from your will, trust, or other estate planning documents. Such a gift will reduce your estate tax burden.
- Make a gift to charity from all or a portion of what's left in your retirement plan. Assets in your IRA, 401(k), or other qualified retirement plan may be subject to income tax when distributed to heirs. Making Mercy Foundation a beneficiary of a portion or all of your retirement plan will avoid the income tax that might otherwise be due from your heirs. This is an extremely tax efficient way for you to make gifts to charity that costs your heirs less than giving other kinds of assets.

You should always contact your accountant or financial planner to understand how the new tax law will affect your individual tax situation.