Tax Reform and Implications for Charitable Giving

On Dec. 22, 2017, the Tax Cuts and Jobs Act was signed into law by the President.

Based on our review of the legislation, we think that the opportunities for charitable giving remain positive. Studies show that the primary reason for making a charitable gift has been rooted in the love and passion for a charitable organization's purpose; tax deductions have always been at the bottom of the list.

Below is what will change beginning in 2018:

1. **New Income Tax Brackets.** Under the new law, we will have several new tax brackets: 10, 12, 22, 24, 32, 35 and 37 percent. Note that the highest bracket is less than what it was previously (39.6%).
2. **Standard Deduction.** The standard deduction is nearly doubled to $12,000 for individual filers and $24,000 for married individuals filing a joint return.
3. **Personal Exemptions.** The deduction for personal exemptions is repealed.
4. **Charitable Contributions for Cash Gifts.** The current 50 percent AGI limitation for cash contributions is increased to 60 percent. Note the repeal of the Pease Limitation that limited the benefits of charitable and other deductions in certain circumstances.
5. **Estate Tax Exemption.** The estate and gift tax exemption is increased to $11.2 million for individuals, and twice the amount for couples, (indexed for inflation).

The new law maintains the current-law income tax charitable deduction. Some analysts have said that the number of taxpayers who itemize will decrease but other analysts say that 80% of those who itemized have incomes of $100,000 or more and will continue to itemize. It is noteworthy that the charitable deduction is the only primary deduction that was not limited or repealed by the new tax law. With the new income tax brackets, many people will find that they have more in their paychecks to spend, save, or donate to charity.

Here are some ideas for the best gift types available for charitable giving in 2018 based on the new tax law:

For outright gifts:

- **Donate appreciated stock:** With the stock market at or near all-time highs, give appreciated stocks to Bowdoin and avoid capital gains tax. Donors don't have to use any pre-tax income to make the gift.
- **Give from your IRA (if you are 70½ or older):** The new tax legislation leaves the IRA Charitable Rollover provision unchanged. Thus, regardless of whether you itemize your taxes, this gift helps you fulfill your required minimum distribution and is not considered taxable income. It's a win-win if you don't itemize since a charitable deduction is not available for an IRA charitable rollover. This is a limited version of the universal charitable deduction concept for "above the line" gifts.

For planned gifts:

- **Name Bowdoin as a beneficiary of retirement plan assets:** These assets remain taxable when distributed to a loved one but tax-free when given to a nonprofit.
- **Establish a charitable gift annuity:** When cash funded, there is a significant portion of the annual payment that is tax-free; when funded with appreciated securities, there is a tax-free portion and a capital gain portion.

Talk With Your Tax Professional

- Please consult with your tax or financial advisors to determine the best charitable giving strategies for you.

Bowdoin