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EDITION 01 | 2019

Q:

How does the Tax Cuts and Jobs Act affect charitable-giving tax strategies?

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▶ **The Pease limitation,** first enacted in 1991, reduced itemized deductions, including charitable donations, by 3 percent of AGI that exceeds certain thresholds: $313,800 for married couples filing jointly in 2017, for example.

The good news for charitable givers is that the Tax Cuts and Jobs Act (TCJA of 2017) repealed this limitation from 2018 through 2026. In isolation, this change encourages high-income earners to accelerate charitable donations through 2026, as charitable donations are now fully deductible.

It's prudent, however, to consider two other important changes that resulted from the TCJA. First, itemized deductions are capped for state and local taxes (SALT), including sales, property and income taxes, at $10,000. This significantly reduces itemized deductions for high income earners paying state and/or local income tax, especially if they also own a home in an area with high property taxes. Second, the act increases the standard deduction from $12,700 for married couples filing jointly in 2017 to $24,000 and $24,400 in 2018 and 2019, respectively, raising the threshold at which it makes sense to itemize.

With all the moving pieces, it's easy to become uncertain about what charitable-giving strategy might be best for you. To simplify things, let's look at two scenarios:

- If your itemized deductions before factoring in charitable donations equal or exceed the increased standard deduction, then 100 percent of your charitable donations would effectively be tax deductible.[1]
- If your itemized deductions before factoring in charitable donations fall short of the new standard deduc-

tion, then the amount of the shortfall would be the amount of charitable donations that would not have an effective tax benefit. For example, for a married couple filing jointly in 2019 with $9,400 of itemized deductions, the first $15,000 ($24,400 minus $9,400) of their charitable donations would not have a tax benefit, since the couple would be better off taking the 2019 $24,400 standard deduction rather than itemizing. Let's assume this couple plans to donate $15,000 per year for each of the next seven years (2019 through 2025). That would result in $105,000 of charitable donations, for which they'd receive no tax benefit.

If, instead, this couple made the full $105,000 of charitable donations in 2019, the first $15,000 would still have no tax benefit (as they could have simply taken the standard deduction), but the remaining $90,000 would now have a tax benefit, saving them about $36,000 (assuming a 40 percent marginal tax rate).

Often, even if taxpayers have the ability to front-load contributions, they prefer to give charitable donations that respond to annual giving campaigns. In these cases, a donor-advised fund (DAF) could be a good strategy. Contributing $105,000 to a DAF allows the taxpayer to take the full tax deduction in that year, direct how the funds are invested in the DAF and then direct how the funds are disbursed over time.

DAFs can have another tax advantage if they are funded with existing securities positions. While only the cost basis of securities held for less than one year contributed a DAF are deductible,[2] contributed securities held for more than one year are deductible at market value[3] and have the added advantage of avoiding capital gains taxes on the appreciation. As a counter, one must also consider the potential for additional appreciation, and thus a greater future deduction amount, if securities are left outside the DAF.

While this article aims to help you think about the impact of the TCJA on charitable-giving strategies, there are numerous additional strategies and considerations. A trusted financial advisor and tax professional can help determine the best strategy for you.

1. Charitable deductions for gifts of cash are limited to 60 percent of AGI.
2. The deduction is limited to 50 percent of AGI.
3. The deduction is limited to 30 percent of AGI.

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