May. 15, 2018

The new Tax Cuts and Jobs Act (TCJA) throws up a tax roadblock for some taxpayers with charitable intentions. But new proposed legislation – the Charitab Giving Deduction Act — could increase donor traffic if it is passed. The bipartisan bill introduced by Representatives Chris Smith (R-NJ) and Henry Cuellar (D-TX) on May 11 would allow charitable deductions for non-itemizers.

Under the TCJA, certain itemized deductions are reduced or suspended from 2018 through 2025, while the standard deduction is effectively doubled to $12,000 for single filers and $24,000 for joint filers. As a result of these and other related changes, it is expected that many taxpayers who have itemized deductions in the past will now be opting for the standard deduction.

Although the deduction for charitable donations is essentially untouched by he TCJA, the shift to more taxpayers claiming the standard deduction may discourage charitable gift-giving in 2018 and beyond. Certainly, the not-for-profit community has voiced its concern about the impact on revenue.

The new bill addresses the issue squarely by permitting deductions for charitable contributions ”above the line” so they would be available whether or not a taxpayer chooses to itemize. This would likely give the not-for-profit sector a huge shot in the arm. The amount of the allowable deduction would not be capped under the proposed legislation.

“Charitable organizations, including churches, synagogues, and other religiously-based entities, are the life-blood of services to those in need in our society, and I am committed to a tax policy that amplifies their ability to serve our community,” said Smith in a press release. “Americans have been generous patrons of charitable causes, and we want to ensure that everyone has the support they need to continue their

take advantage of ways to maximize the tax benefits for donations under current law. For example, these four strategies may be appropriate in the wake of the TCJA.

1. Bunching: Simply make the bulk of your charitable donations in the years you expect to itemize deductions and skip or reduce gift-giving in other years. For instance, if you're already contemplating a large gift in 2018, you might be a little extra-generous toward the end of the year to increase the tax payoff.

2. Donor-advised funds: With a donor-advised fund (DAF), you can make a large initial contribution this year and qualify for a healthy deduction. Then the DAF doles out money to your favorite charities over a period of time. This has the same practical effect as bunching.

3. Gifts of property: This technique has long been a staple of wealthy individuals. By giving capital gain property that has appreciated in value, like art or other collectibles, you can generally deduct the property's current fair market value, instead of its initial cost. Thus, you increase your deduction while avoiding tax on the appreciation in value.

4. Rollover from an IRA: A taxpayer age 70½ or over can roll over up to $100,000 directly from an IRA to a charity with no tax consequences. While you don't qualify for a deduction, the distribution isn't taxable either and the rollover can satisfy IRS distribution requirements.

Do any of these strategies make sense for your clients? Point out the tax-saving opportunities when it's appropriate.