The 2017 tax reform reconciliation act, also known as the Tax Cuts and Jobs Act (TCJA), represents the most sweeping rewrite of the federal tax code in more than three decades. It includes significant changes for businesses and individuals alike—as well as several key provisions that impact the tax treatment of charitable contributions to not-for-profit organizations.

Key Provisions

The standard tax deduction for single filers is now increased to $12,000 from $6,350 and to $24,000 from $12,000 for joint filers. A higher standard deduction generally means fewer taxpayers will itemize their deductions, which is required for deducting charitable contributions.

Individual taxpayers who do choose to itemize their deductions may now also only deduct up to $10,000 of the aggregate of state and local property taxes and either income or sales taxes from their federal taxes. However, in Colorado, donors who don’t itemize may still be eligible to deduct a portion of their charitable contributions on their state tax return, even when they don’t itemize on their federal return.

As of Jan. 8, 2018, The Tax Policy Center estimates that these changes alone will shrink the number of households claiming an itemized deduction for their gifts to not-for-profits from about 37 million to around 16 million annually.

At the same time, charitable deductions are made more valuable under the TCJA as a result of the following changes:

- Combined effective rates are increased in high-tax-rate states because of the reduced state tax deductions. The reduction of state taxes, while still itemizing, creates a higher level of income and therefore, higher taxes. Because of this, it’s even more important to get the most use out of itemized deductions, making gifts of assets even more critical.

- Some federal income tax brackets increased under the TCJA, along with the tax on the income in those brackets. Increasing itemized deductions through charitable contributions can help move taxable income into a lower tax bracket.

- The Pease limitation, which required a phaseout of itemized deductions on high adjusted gross income taxpayers, is also eliminated.

- Previously, contributions of cash were deductible up to 50 percent of adjusted gross income. The remaining amount was carried forward into future years. These gifts can continue, but now the limitation is raised to 60 percent. That means certain cash gifts subject to the reduced phaseout could be available sooner.

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OTHER OPPORTUNITIES AND CHALLENGES

APPRECIATED ASSETS
Charitable gifts of appreciated assets are still deductible subject to an adjusted gross income phase-out of generally 30 percent. However, greater benefit is obtained from gifts of appreciated assets. The donor gets a deduction for the full fair market value of the item and avoids the capital gains tax that would occur had the asset been sold. A donor-advised fund can be used for this tax strategy.

Using this same concept, donors can also gift the asset to a charitable remainder trust and sell it with no capital gains tax, then earn the income on the re-invested proceeds from the assets contributed.

CHARITABLE BUNCHING
To allow greater deductions over multiple years, donors can also bunch their charitable deductions. This means that a taxpayer can bunch all charitable gifting from two years in one year and then potentially utilize the standard deduction the next year. This allows a donor to exceed the standard deduction amount in the years they make charitable contributions and use the standard deduction in the years they don’t make them.

IRA DISTRIBUTIONS
Under the TCJA, there’s still the benefit of being able to contribute a required minimum distribution from an IRA to charity. If a donor is at least 70.5 years old, they can still make direct charitable distributions of up to $100,000 to a qualified charity. The donor doesn’t get a charitable deduction; however, they don’t have to recognize the distribution as income. This can also be beneficial in other tax areas, because it reduces the donor’s adjusted gross income.

ESTATE TAX
The estate-tax exemption is increased to approximately $11.2 million in 2019 from $5.49 million in 2017. If an individual’s estate is over $11.2 million, a donor might donate an amount to charity to help lower their taxable estate to below this estate-tax exemption amount.

However, under the new exemption amounts, the donor of an estate might not make a charitable donation if their estate value is less than the estate-tax exemption amount.

NEXT STEPS
Tax reform presents as many opportunities as challenges for philanthropy. Each of the provisions highlighted in this article can potentially benefit taxpayers and the charities they choose to support, provided each is taken into consideration during the tax-planning process.