Philanthropy Pillar: 2019 Charitable Donations

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In our April newsletter we outlined many of the changes to the Federal tax code. A major benefit to most American taxpayers is the significant increase of the standard deduction ($12,000 for single filers and $24,000 for joint filers). This increase, coupled with lower rates for nearly all middle-class families, will mean a simplified tax return and less overall taxes paid on income earned. While this is good news, there are some unintended consequences related to the changes of the tax code. Many of you who are charitably inclined may recognize the standard deduction exceeds your donations to charity this year. This results in no added benefits (from strictly a tax perspective) on those donations you make to your charities of choice.

As you realize, most non-profit organizations depend on the generosity of people like you. Without you, they cannot accomplish their mission. There is concern that next year will be a point of reconsideration for many donors, when people realize their previously tax-friendly donations now have less tax-management clout than in previous years.

We think October is an opportune time to think about some options you have for philanthropic planning, because you have a few months to incorporate changes that put you and your favorite charities in a better position. We have three strategies worth considering if the change to the tax code affects your situation and you want to continue with philanthropy as part of your plan:

1. If you're over 70 ½ years old, you have the option to direct money to charity as part of your Required Minimum Distribution (RMD). When you send money to charities directly from your IRA no taxes are due, and the amount of money is included in your mandatory distribution, without being recognized as part of your annual income. This is the best strategy to pursue because you lower your taxable income, the donation remains tax-free, and you still benefit from the entire standard deduction. The downside here is that only IRAs where the account holder is over 70 ½ qualify for this strategy.

2. Another consideration is to bundle gifts for 2018 and 2019. If you have the cash reserves on hand, you can make two donations to your charity of choice in the same tax year and let the charity know the second installment is intended as your 2019 donation. The objective is to overcome the $24,000 standard deduction by making twice the number of gifts. There are other considerations (including real estate taxes, deductible mortgage interest, etc.) to consider if this strategy is right for you. The benefit in exceeding the standard deduction is you lower your taxable income. The downside to this strategy is that you need to have the reserves to fund the double gifts on hand in 2018.

3. The third strategy is to establish a Donor Advised Fund and fund multiple years of gifts in one tax year by setting money aside in a special type of account. From that account, you can release funds to your charities in the years you want to make your donations.

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This strategy is a continuation to the bundling idea and allows for a much greater tax deduction (up to 50% of your earned income in 2018) and can be stretched to fund gifts during your entire lifetime, or beyond. The Donor Advised Fund is a relatively new tax planning strategy and we think it is tremendously beneficial when applied in the right situations. The downside again is the funding needs to be established in a single year, which might prohibit some charitably-inclined families from pursuing this strategy.

We recognize The Philanthropy Pillar is one area where our team can enhance communications to make you knowledgeable about your options. These ideas apply to a significant percentage of our clients and we help many families select the appropriate funding strategies for their charitable efforts. We know that your favorite charities will benefit, no matter how you give the donation. Savvy strategies will increase the benefit to you.

As I mentioned, this is a great time of year to review your options. We still have months to act if you're interested in a Donor Advised Fund or direct RMD transfer. Please contact us with your questions and let us know if you need help implementing these strategies.

"We make a living by what we get. We make a life by what we give."
- Winston Churchill