Charitable giving guidance following federal tax reform

Many taxpayers who have traditionally itemized their deductions might end up simply claiming the standard deduction for 2018. The Tax Cuts and Jobs Act (TCJA) roughly doubles the standard deduction to $12,000 for single filers and $24,000 for married couples. The choice between taking the standard deduction or itemizing will depend on your individual circumstances.

You can claim deductions for charitable contributions only if you itemize deductions. For that reason, it has been estimated that the number of households claiming charitable deductions will decline under the new tax law. However, those with philanthropic inclinations can reap tax benefits by donating strategically.

For example, if you contribute to a donor-advised fund (DAF), you can get an immediate tax deduction. By making one or more contributions to a DAF in a single year, you can get past the standard deduction threshold and take an itemized deduction. You may choose to direct the fund administrator to distribute the funds annually in equal increments, so your favorite charities receive a steady stream of donations regardless of whether you itemize every year. Also contributing appreciated assets to a DAF (or directly to a charity) can help avoid long-term capital gains taxes (subject to certain limitations) in addition to securing a deduction for the assets' fair market value.

If you're not using a DAF, you can take a similar "bunching" approach to your donations to accumulate enough itemized deductions to exceed the standard deduction for some years. For example, if you typically contribute to a nonprofit at the end of the year, you can instead bunch donations in alternative years (January and December of 2019 and January and December of 2021). Or you can make several years' worth of donations in one year. You give the same aggregate amounts as in the past and preserve the charitable deduction.

Before the TCJA, you could deduct cash gifts to public charities up to 50% of your adjusted gross income (AGI). After the TCJA, you can deduct up to 60%. So, you are now allowed to contribute and deduct more than prior years. Contributions in excess of the AGI limitations may be carried forward for up to five years.

Appreciated publicly traded securities owned for more than one year often make great charitable gifts because you avoid the capital gains tax you would pay if the stock was sold and you can deduct the fair market value of the stock. However, note that donations of long-term capital gain property are limited to 30% of AGI when given to a public charity. Do not donate stock that is worth less than your stock basis; instead, sell the stock, deduct the loss and donate the cash generated from the sale to the charity.

Taxpayers age 70½ and over can designate that IRA distributions (up to $100,000 per year) be made directly to qualified charities. You need to arrange for a direct transfer from the IRA trustee to an eligible charity by December 31 of the tax year. Using this method, you do not take a charitable deduction but the distribution is excluded from your taxable income. This strategy is advantageous even if you are unable to itemize deductions.

With a little planning, you can support your favorite charity while minimizing your tax liability. For additional information and applicability to your individual tax situation, we recommend consulting with your tax return professional.