



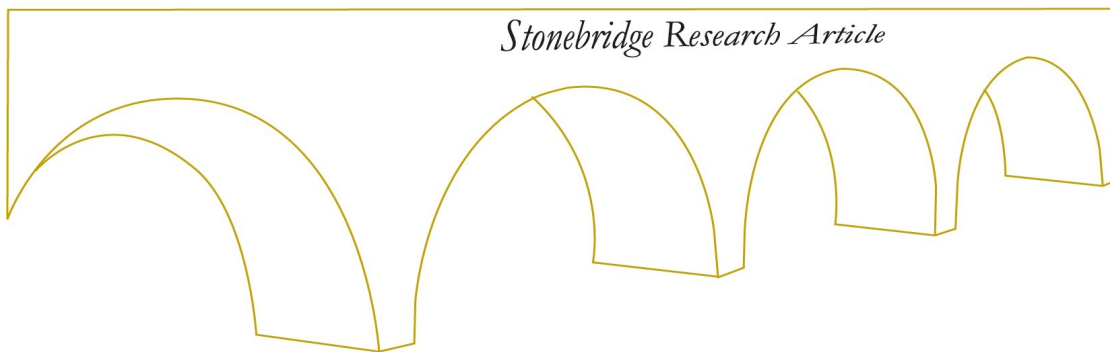
Tax Cuts and Jobs Act: The Impact on Charitable Donations

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With the Tax Cuts and Jobs Act (TCJA) now in place we have had several of our nonprofit partners asking how it might affect charitable donations. In this examination of the TCJA’s impact on charitable giving we will review what we currently know, what we think might happen and some possible solutions.

It is important to note that it is difficult to know what the true impact of the TCJA will be right away. To state that something will occur because of the new tax law is a bit presumptuous as it often takes several years to determine the effect of large acts like this. There is also a possibility of amendments being made to the TCJA which could change its impact.

What We Know

The TCJA went into effect on January 1st and outlined many changes to tax laws, but a few in particular stand out for charities and non-profits. One is the change in how charitable contributions are accounted for when preparing for tax deductions. According to the IRS, “You can only deduct charitable contributions if you itemize deductions on U.S. Individual Income Tax Form 1040. For contributions of cash, check or other monetary gift (regardless of amount), you must maintain a record of the contribution. In addition to deducting your cash contributions, you generally can deduct the fair market value of any other property you donate to qualified organizations.” You will need to maintain a record of supporting documentation for all contributions.

It should be mentioned that itemization would only be necessary if your tax deduction would exceed that of the standard deduction which has doubled under the TCJA.

You must also acknowledge whether the organization provided anything in exchange for the contribution and if so, an estimated value which would reduce your contributions.

What We Think Might Happen

While itemization does not seem like a like a showstopper that would affect charitable donations let’s first take a look at the history of itemization. In Chart 1 you can see that according to IRS, Statistics of Income Division the number of standard deductions vs itemized deductions from 2000-2009 has roughly been 70% standard and 30% itemized with even fewer itemizing contributions. Historically, people have not expected to hit the necessary deduction amount to make itemization effective. In the TCJA, there is now a doubling of standard deduction rate which will make it more unlikely that people will itemize.

Chart 1

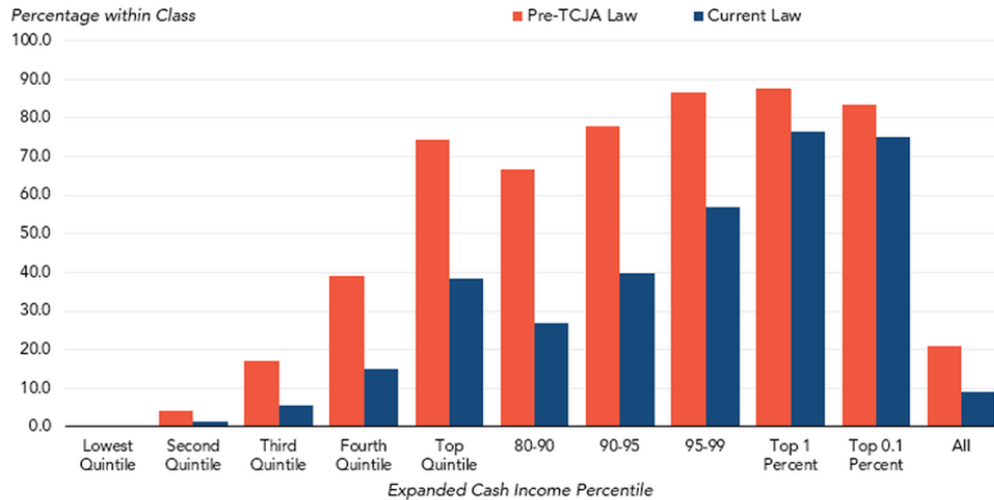
| Year | All Returns | | Returns with Itemized Deductions | | | |
|------|-------------------|---------------|------------------------------------|---------------|-------------------------|-------------|
| | | | Adjusted gross income less deficit | | Contributions Deduction | |
| | Number of returns | Amount | Number of returns | Amount | Number of returns | Amount |
| 2009 | 140,494,127 | 7,626,430,723 | 45,695,736 | 5,098,314,390 | 37,243,302 | 158,016,526 |
| 2008 | 142,450,569 | 8,262,860,170 | 48,167,223 | 5,731,767,164 | 39,250,369 | 172,936,002 |
| 2007 | 142,978,806 | 8,687,718,769 | 50,544,470 | 6,187,835,911 | 41,119,033 | 193,603,968 |
| 2006 | 138,394,754 | 8,030,842,945 | 49,123,555 | 5,703,411,397 | 41,437,749 | 186,646,644 |
| 2005 | 134,372,678 | 7,422,495,663 | 47,755,427 | 5,185,665,871 | 41,381,465 | 183,390,686 |
| 2004 | 132,226,042 | 6,788,805,130 | 46,335,237 | 4,643,403,546 | 40,623,426 | 165,564,388 |
| 2003 | 130,423,626 | 6,207,108,793 | 43,949,591 | 4,103,653,368 | 38,626,902 | 145,702,137 |
| 2002 | 130,076,443 | 6,033,585,532 | 45,647,551 | 4,080,678,403 | 40,399,695 | 140,571,365 |
| 2001 | 130,255,237 | 6,170,603,942 | 44,562,308 | 4,164,470,420 | 39,386,782 | 139,241,476 |
| 2000 | 129,373,500 | 6,365,376,648 | 42,534,320 | 4,294,261,877 | 37,524,825 | 140,681,631 |

The largest hit to itemization is expected to affect middle income families. In an article by Forbes, contributor Howard Gleckman writes “The share of middle-income households claiming the charitable deduction will fall by two-thirds, from about 17 percent to just 5.5 percent. However there is no expected change to those with higher income.” (See Chart 2)



Chart 2

Change in the Share of Taxpayers Taking Itemized Deductions for Charitable Giving Under the TCJA



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

While not exactly the same, we saw a similar tax change during the Regan Era. In an article written by Leslie Lenkowsky, Professor of Public Affairs and Philanthropic Studies at Indiana University, he writes “the Reagan administration's actions shifted the type of government support available to nonprofit groups. No longer would they get as much from the relatively predictable grants and contracts.” This change caused non-profit organizations to act more like for profits, providing quality service to the communities they serve and in exchange receiving donations, in other words payment, for their work. This was a drastic change for non-profits as many had relied on government grants to run their programs. However the ingenuity of non-profit management teams and board members shifted the thought of funding away from grants and into requests for donations. The point I am trying to make here is that while an obstacle was placed in front of non-profits they were able to find unique ways to maneuver around it.

Possible Solutions

Bunching Strategy & Donor Advised Funds:

There are several possible solutions available to tax payers who want to continue their donation efforts and non-profit organizations.

The first is a strategy called bunching. For those who are unsure if itemization would benefit them, from a deduction stand point you could strategically itemize every few years. By combining what you might contribute yearly into one larger block (made up of multiple years of contribution) you can build a larger donation amount for that specific tax year. This strategy works best if you are able to adjust some of your other scheduled payments, like property tax, to align with your bunching year and pushing your deductions past the standard limit.

Another option to enhance your bunching strategy is a donor advised fund. Some easy to use examples are the Schwab Charitable donor advised fund or



Chart 3

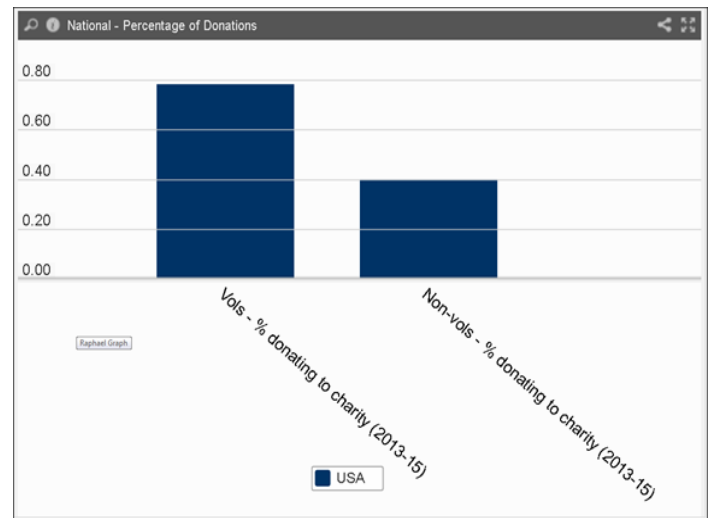
the Fidelity Charitable donor advised fund. Donors can contribute to the fund and take an immediate deduction when those assets are added.

From there, the assets can grow and you maintain the privileges of determining your grant to qualified charities. While this will still require itemization these funds can be useful in a bunching strategy. Another unique aspect is the ability to contribute cash, appreciated assets or investments to a donor advised fund. There are typically minimums and fees that are incurred for these funds. Both minimums and fees can vary but this may be a good option as you look to donate in coming years.

Volunteerism:

While tax deduction may be one reason to donate, there are certainly people who donate to support a cause. Tax deduction or not, some people will continue to give regardless of their tax bracket and how they file. In a 2016 survey done by the Charitable Aid Foundation, the U.S. ranks number two on the World Giving Index and has remained number two in their Five Year World Index. While this index measures multiple pieces of giving, not just monetarily, it is important to note the continuous generosity of people in our country.

Also to be noted is the growth in volunteerism across the United States. While this does not necessarily provide donation dollars, volunteers could be used in creative ways to advance the mission and growth of a non-profit organization. According to a 2017 Gallup poll, "Volunteering with secular charities has trended up modestly, rising from 43% in 2003 to 51% this year." In a survey done by the Corporation for National & Community Service, there were 62.6 million volunteers this year working roughly 7.8 billion hours, producing an estimated value of \$184 billion. There is also a correlation between volunteerism and donations with many more volunteers donating vs non-volunteers as seen in Chart 3.



This correlation could be a strategic focus for non-profits going forward and with a continued rise in volunteerism, this has the potential for growth in turning volunteers into monetary donors.

Conclusion

We are in the very early stages of the TCJA and it will take time to see how the landscape changes. We live in a country where commitment to community has always been important and those efforts have risen over the years. While the TCJA seems to place challenges in front of non-profits, there are potential opportunities available to donors and organizations to help drive mission and contributions.



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