DONATING TO NON-PROFITS IN WAKE OF FEDERAL TAX LAW CHANGES

As you may know, starting in 2018 standard deductions (SD) in the Federal individual income tax have been roughly doubled. For couples, the new SD is $24,000 or $26,600 if both are aged 65 or over ($25,300 If just one). For single filers, the new SD is $12,000 or $13,600 if 65 or older. Estimates are that households who itemize will decrease from 30% to only 5%. Tax analysts are uncertain about the extent to which decreased itemization will lower donations to all or some types of non-profits; for example, religious entities may be less affected.

Since the new SD amounts may affect your decisions about making donations to Fearrington Cares and other 501/c/3 non-profits whose activities you value, we have prepared this information brief. It outlines two ways to make donations on a tax-exempt basis while still benefiting from the higher SDs. It also outlines the advantage of donating appreciated property (usually securities) whether you itemize or not.

Donating appreciated property to a 501/c/3 non-profit.

- If, for example, you donate mutual fund shares that have increased in value, generally you do not have to pay any tax on that increase (capital gain) when you donate them to a non-profit. This exemption from the gains tax can benefit you even if you do not itemize.
- If you do itemize, your deduction equals the appreciated value.
- Some households prefer donating appreciated property so as avoid using cash income or savings instead.
- The recipient non-profit also pays no tax on the gains when it sells the appreciated shares or other property.

Using eligible IRAs to make donations in addition to standard deduction.

Since 2006 Federal tax law has allowed ***some*** households who have Individual Retirement Accounts (IRAs) to directly transfer cash or securities from their IRAs to 501/c/3 non-profits without having to include those transfers in their household income. These are known as Qualified Charitable Donations (QCDs).

- The IRA owner must be subject to the "required minimum distribution" or RMD rule. This rule applies when the owner is 70 and one-half years old. It requires the owner to take into their income a minimum amount each year from their IRA. (The RMD rule also applies to other like tax-qualified retirement savings, but the direct transfer QCD option only applies to IRAs. See below.)
- The IRA owner instructs its administrator (often mutual fund manager or bank) to directly transfer xx$$ amounts to one or more non-profits. These amounts can exceed the owner's annual MRD amount but not $100,000 annually.
- In addition, the IRA owner can use the new higher SD on their tax return unreduced by these transfers. The result is SD plus non-taxable donations. ***But it is essential***

that the IRA transfers do not pass through the taxpayer's personal checking account or like.

- If you have kept your tax-qualified retirement savings in a 401/k, 403/b, 457, TSP, SEP or other employer-based defined contribution account, you may be able to directly transfer all or some of those savings into a rollover IRA and then make direct QCD transfers from the rollover IRA to non-profits as above.

Donor Advised Funds and "bunching."

Households sometimes find it advantageous to "bunch" itemized deductions -- especially for contributions to eligible non-profits -- in one year and take the standard deduction the next year. The new SDs create much higher thresholds for bunching contributions in any given year. Donor Assisted Funds (DAFs) may help you exceed your SD in a given year with allowable contributions. These funds also help assure that the non-profit recipients have more even, predictable annual incomes.

- You create a DAF account with a financial institution -- broker, mutual fund, bank -- probably one you already use for investing. Your DAF account is technically within the institution's charitable trust component. This allows you to take a deduction in those years in which you move assets (cash, securities) into your DAF.
- You instruct the DAF administrator to disburse the DAF assets over two or more years to the eligible non-profits you designate in the amounts you specify.

Example: a couple has shares in money market and indexed funds managed by the ABC investment company. In 2018 they create a DAF within ABC's charitable trust component and transfer $24,000 from their preexisting ABC holdings into their new DAF, probably similarly invested.

- In 2018 the couple's itemized deductions are $34,000 -- $10,000 maximum state/local tax deduction and the $24,000 DAF transfer. In years 2019 and 2020 the couple uses the $24,000-$26,600 standard deduction.
- The DAF administrator disburses, say, $8,000 in 2018, 2019, 2020 each to the couple's designated eligible non-profits.
- The result is that the couple's taxable income is $10,000 less over the three years, for a tax savings of tax savings of $2400 if their marginal tax rate is 24%. And the non-profit recipients have more predictable, even incomes.

Talk to Your Financial Institution.

All the major investment companies – Vanguard, Fidelity, Schwab, etc. – and banks – including SunTrust, First Citizens, Bank of America, etc. -- seem equipped to help customers make direct QCD transfers from IRAs to non-profits and/or to create DAFs and execute donations from them. You, however, may have to probe beyond the local office for help. Some financial journalists and bloggers predict that the higher SDs will increase interest in these options among more households. If so, local offices' will become more familiar with the specialists in their firms who handle QCDs or DAFs.

Each institution has its rules about the minimum necessary for a DAF and allowable annual payments. Firms may also limit how many annual QCD payments are allowed and how they are executed. Some suggest that if you can write checks on your rollover IRA, then doing so is sufficient for making direct transfers to as many non-profits as you wish. Updates of this brief will attempt to clarify these issues and provide links to different webpages of institutions and summaries.

But in any event, each person must talk with their financial institution as to what's feasible at what, if any, administrative costs or higher investment fees. If you have a tax advisor, you, or course consult with that person as well as doing your own internet searches. This brief is provided only for information and should not be taken as tax advice.

This brief only deals with three ways you may find it advantageous, from a tax perspective or otherwise, to donate to Fearrington Cares and other valued non-profits from current income and savings. Future briefs will explore other subjects, such as the leaving unspent IRAs (and like) moneys to non-profits.

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