What does the new tax law mean for your charitable giving?

Among the revisions to the tax code, there are implications for your charitable giving. Like you, most donors give because they care, not because of a tax incentive. All the more reason to be well informed about your options so that you can maximize your philanthropy and minimize your tax bill.

First, donors may deduct up to 60% of their Adjusted Gross Income (AGI), up from 50%. While that's great news, it will only apply to the small percentage of donors who itemize. Other tax law changes may actually be problematic for many donors and for the nonprofits doing the work that matters to them. Happily, the Community Foundation can help.

“Bunching” and the Standard Deduction

The standard deduction—mortgage interest, state and local taxes, charitable giving and other expenses—is now $12,000 for individuals and $24,000 for joint filers, up from $6,350 and $12,700 respectively. It is estimated that the percentage of people itemizing their deductions will drop from 30% to 4%. For some, that may affect charitable giving. A change in giving patterns could have a profound effect on nonprofit budgets, cash management and services.

What’s a DAF?

Donor Advised Funds (DAFs) are separate funds established at community foundations and other public charities. You receive the tax benefits for which you are eligible at the time you make your gift. Over time, you can make recommendations to the community foundation (or other public charity) about where you would like grants from the DAF to go.

“My giving is more focused, satisfying and fun because I work with the Community Foundation.” —Sibyl Sanford

“Bunching” is the practice of consolidating multiple years of charitable giving into a single year through a Donor Advised Fund (DAF). Bunching makes it possible for you to take advantage of the charitable deduction when your bunched gift combined with other eligible expenses exceeds the standard deduction. The DAF allows you to maintain your typical annual giving patterns while smoothing the contribution income that nonprofits receive.
Reducing Taxable Income

If you are 70 ½ or older and have an Individual Retirement Accounts (IRAs), you must take a Required Minimum Distribution (RMD) from your IRA. The Qualified Charitable Distribution (QCD), distributions made directly from the IRA to a charitable organization, can help reduce your taxable income. QCDs are not included in your taxable income which may reduce your taxes, depending on your circumstances.

While Donor Advised Funds are prohibited from accepting QCDs, the Community Foundation has other options. We offer designated, pass-through, field-of-interest and other funds that make it possible for you to specify your wishes prior to the Community Foundation receiving the gift.

Donating your Required Minimum Distribution direct from your IRA to a Nonprofit Organization

Participants need to be 70 ½ or older
QCD’s distributed directly from the IRA to the charitable organization reduce taxable income.
Maximum $100,000 QCD per person

*Donor Advised Funds are currently excluded from QCD eligibility.

If you don’t already have a DAF, consider starting one. It’s easy! Just set up an appointment to meet with a member of our staff.

What are the advantages of a Community Foundation DAF?

- Local knowledge and relationships
- A wealth of possibilities—every aspect of community—arts, economy, environment, wellness, food & agriculture, education, neighborliness and equity, throughout Whatcom County
- Ability to leverage the contributions of many donors and other partners

Our nominal fees make it possible for the Community Foundation to work on pressing community challenges, develop new ways to put local resources to work, and strengthen local nonprofit organizations.

If you want more legalese and parentheses, you can refer to Internal Revenue Code Section 170(c) for more DAF information.

We’re excited to be a part of the Foundation—it’s an adventure in building and strengthening our community. What could be more thrilling?” —John & Joyce Pedlow

What can you do?

#1 #2 #3
Nonprofits you love

Individual Retirement Account

OR

Designated, Pass Through & Other Funds*
What about Social Security benefits?
The taxable portion of your Social Security (SS) benefits may be reduced if you are eligible for a QCD from your IRA. For lower income taxpayers, you can reduce the amount of your benefits that are taxable. For example, if married taxpayers have Modified AGI (MAGI), lower than $32,000 ($25,000 for single taxpayers), then none of your SS benefits are taxable. As the MAGI figure climbs for married couples from $32,000 to $44,000 ($25,000-$34,000 for single taxpayers), 50% of their SS benefits are taxable. Once MAGI exceeds $44,000 for married taxpayers ($34,000 for single taxpayers), 85% of their social security benefits are taxable. So, lowering your MAGI through a QCD gift has a compounding effect because: 1) you avoid taxable income on the QCD amount, and 2) you potentially reduce the tax on your SS benefit amount.

### The impact of a QCD on Your SS Benefits Taxation

<table>
<thead>
<tr>
<th>TAXPAYER STATUS</th>
<th>SS BENEFITS</th>
<th>MAGI*</th>
<th>QCD AMOUNT</th>
<th>TAX</th>
<th>TAX SAVED</th>
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<tbody>
<tr>
<td>Single</td>
<td>24,000</td>
<td>35,000</td>
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<td></td>
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<tr>
<td>Married</td>
<td>36,000</td>
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<td></td>
<td></td>
</tr>
<tr>
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<tr>
<td>Married</td>
<td>36,000</td>
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<td></td>
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<td>5,000</td>
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</tr>
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</table>

* MAGI includes adjusted gross income + nontaxable interest + 50% of SS benefits

If you are in a higher income bracket, keeping your AGI as low as possible has additional benefits.
- It increases the amount of your medical expenses that are deductible because medical expenses are only deductible if they exceed 7.5% of your AGI.
- Lowering AGI also reduces the potential 3.8% net investment income tax (NIIT) on investment earnings for high income taxpayers as this tax is also based on your AGI.
- Lowering your AGI if you are a high income taxpayer may also help you avoid higher Medicare Part B premiums, as these monthly premiums are now tied to your AGI figure on an annual basis.

### How can a QCD affect the way my SS benefits are taxed?

<table>
<thead>
<tr>
<th>SINGLE with MAGI</th>
<th>TAXABILITY</th>
<th>MARRIED with MAGI</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; $25,000</td>
<td>0%</td>
<td>&lt; $32,000</td>
</tr>
<tr>
<td>$25,000—$34,000</td>
<td>50% of SS Income x Marginal Tax Rate</td>
<td>$32,000—$44,000</td>
</tr>
<tr>
<td>&gt; $34,000</td>
<td>85% of SS Income x Marginal Tax Rate</td>
<td>&gt; $44,000</td>
</tr>
</tbody>
</table>

The LOWER your MAGI, the LOWER your Taxable SS Income
What can you do?

- If you are eligible for a QCD from your IRA, consider directing your RMD to one of the many Community Foundation fund options, to one or more of the nonprofits that matter to you, or to the Community Foundation itself.
- Share this information with your family, friends and associates.

What funds already exist at the Community Foundation?

**Fund for Whatcom County**
The most flexible grantmaking fund, making it possible to adapt to ever changing local opportunities and needs.

**Project Neighborly**
Fueling bright ideas that make Whatcom County a more welcoming, safer place for everyone.

**Field of Interest Funds**
Focusing resources on individual elements that make your community unique, including arts, education, environment, equity—housing, food, and the economy, animals and health.

**Nonprofit Endowment Funds**
Permanent funds supporting the organizations that matter most to you.

**Whatcom Scholarship Fund**
Investing in the promise of local youth pursuing their potential and their dreams by continuing their education post-high school.

What if I don’t see a fund that fits my interests and goals?
Get in touch with us. The Community Foundation can help you determine the best solution based on what matters to you, whether that involves the Community Foundation or not.

Planned Giving
The new tax law also includes a significant change regarding estate planning, roughly doubling the estate tax exemption to $11 million for individuals and $22 million for couples. (The Washington estate tax exemption for 2018 is $2,193,000.)

What happens in 2026?
No one knows what will happen when the temporary provisions of the current tax law expire. Of the 23 tax breaks scheduled to expire on December 31, 2025, those that may have the most significant potential impact on your charitable giving are:

- Increased Percentage Limitation on Cash Contributions
- Increased Standard Deduction
- Lower Individual Income Tax Rates
- Increased Estate Tax Exemption.

Any or all of the above could be extended (i.e., stay the same) or be modified so that they are more or less favorable from a tax perspective.

What can you do?

- Consult your professional advisors—your attorney, CPA and financial advisor—to help you strategize about the most prudent approach for you.
- Share this information with your family, friends and associates.
- Contact Rachel Myers, Philanthropic Advisor at rachel@whatcomcf.org or 360.671.6463 for more about how the Community Foundation can help you make a difference.

The Community Foundation does not provide tax or legal advice. Please consult your professional advisor(s) to discuss your individual situation.

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