How will the recent revisions to the tax code affect your clients?

Your clients have questions about the recent revisions to the tax code. For many, that includes questions about how it might affect their charitable giving. You know that your clients give because they care, not because they are motivated by a tax incentive. All the more reason to help them be well informed about their options so that they can maximize their philanthropy and minimize their 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 their charitable giving. A change in giving patterns could have a profound effect on nonprofit budgets, cash management and services. That could mean added challenges for the communities they serve. That matters to your clients.

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.

“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 your clients to take advantage of the charitable deduction when their bunched gift combined with other eligible expenses exceeds the standard deduction. The DAF allows your clients to maintain their typical annual giving patterns while smoothing nonprofit gift income.
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.

Reducing Taxable Income

Your clients 70½ and older with an Individual Retirement Account (IRA), must take a Required Minimum Distribution (RMD) from their IRA. The Qualified Charitable Distribution (QCD), a distribution made directly from your client’s IRA to a charitable organization, can help reduce their taxable income. QCDs are not included in the donor’s taxable income which may reduce their tax bill, depending on their circumstances.

Donating a Required Minimum Distribution direct from an 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.
What about Social Security benefits?
The taxable portion of Social Security (SS) benefits may be reduced for clients eligible for a QCD from their IRA. Taxpayers in lower income brackets can reduce the amount of their 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 their 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, then 50% of their SS benefits are taxable. Once MAGI exceeds $44,000 for married taxpayers ($34,000 for single taxpayers), 85% of their SS benefits are taxable. So, lowering your client’s MAGI through a QCD has a compounding effect because: 1) they avoid taxable income on the QCD amount, and 2) they potentially reduce the tax on their SS income.

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>
</tr>
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<tbody>
<tr>
<td>Single</td>
<td>24,000</td>
<td>35,000</td>
<td>0 5,000</td>
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<td>840</td>
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<tr>
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<td>725 0</td>
<td>725</td>
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<tr>
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<td>0 5,000</td>
<td>3,835 2,725</td>
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<tr>
<td>Married</td>
<td>36,000</td>
<td>55,000</td>
<td>0 5,000</td>
<td>2,709 1,650</td>
<td>1,059</td>
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</table>

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

For clients in higher income brackets, keeping their AGI as low as possible has additional benefits.
• It may increase the amount of their medical expenses that are deductible because medical expenses are only deductible if they exceed 7.5% of 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 AGI.
• Lowering AGI of high income earners may also help them avoid higher Medicare Part B premiums, as these monthly premiums are now tied to AGI on an annual basis.

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 your clients to specify their wishes prior to the Community Foundation receiving the gift.

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

<table>
<thead>
<tr>
<th>SINGLE</th>
<th>TAXABILITY</th>
<th>MARRIED</th>
</tr>
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<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>
What funds already exist at the Community Foundation?

- Fund for Whatcom County
- Project Neighborly
- Field of Interest Funds
- Nonprofit Endowment Funds
- Whatcom Scholarship Fund

What if your clients don’t see a fund that fits their interests and goals?

Get in touch with us. The Community Foundation can help determine the best solution based on what matters to your clients, 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.)

How can the Community Foundation assist you and your clients?

We can be a resource. We bring our philanthropic expertise and knowledge of local issues, organizations and assets to help your clients achieve their giving goals. Like you, we tailor strategies to each individual.

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 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. The consequences of the 2017 tax code revisions, the status of federal finances, the nation’s overall economic health and politics are among the many factors that will drive future tax policy decisions. That is a lot of variables and a lot of uncertainty for your clients to navigate.

What can you do?

Share this information with your clients. You can help them strategize the most prudent approach for them fueled by your expertise. They will thank you. Donors share their disappointment and frustration when they learn about options like the QCD from the Community Foundation rather than from their professional advisors. Philanthropy should feel good. We want to help you be a part of that good feeling.

For more information, please contact Rachel Myers, Philanthropic Advisor at rachel@whatcomcf.org or 360.671.6463.

The Community Foundation does not provide tax or legal advice. We recommend that donors consult their professional advisor(s) to discuss their individual situation.