Charitable Giving and the 2017 Tax Cuts and Jobs Act

Tax season is now behind us. The Unitarian Universalist Association (UUA) has received questions about the 2017 Tax Cuts and Jobs Act ("2017 Tax Act") and how it affects them or their congregation as individuals begin to feel its impact. This memo:

- highlights some key changes to the tax code;
- suggests ways congregations and other UU entities may engage with donors in light of these changes; and
- lists resources for further education and reading.

FREQUENTLY ASKED QUESTIONS:

WHAT CHANGED IN THE 2017 TAX ACT?

A number of sweeping changes took effect in 2018, including a decrease in all marginal tax rates except the lowest, an increased standard deduction, and some important rules and limits that apply to itemized deductions.

WHAT'S A STANDARD DEDUCTION AND HOW DID IT CHANGE?

The standard deduction is a fixed amount that any taxpayer may deduct from their adjusted gross income before arriving at the final amount that will be taxed.

One effect of the 2017 Tax Act was lower taxes for many Americans.

The standard deduction was increased, and in 2019 will be $12,200 for single taxpayers and $24,400 for married couples filing jointly, nearly doubling these amounts from their 2017 levels. The additional deduction for people 65 and older remains available and will be $1,300 per person for each married taxpayer, and $1,650 for single taxpayers.

WHAT ARE ITEMIZED DEDUCTIONS AND HOW DID THEY CHANGE?

When a taxpayer "itemizes," they add up all their eligible deductions and subtract these from their adjusted gross income to find out the amount of income that will be taxed. If a taxpayer's itemized deductions are more than their standard deduction, then they will opt to itemize, because this will result in lower taxes.

The 2017 Tax Act made several changes to itemized deductions. Some changes that may impact UU donors (including people who make pledges to their congregations) include:

- **Deductions for state and local taxes** (including real estate taxes and state and local income taxes) are now capped at $10,000 for single people and for married couples filing jointly. The cap for married taxpayers filing separately is $5,000 per taxpayer.

  Donors in areas with high local and state taxes, and donors that own highly valued homes may be more affected by this cap. Areas with a high cost of living and/or high local/state taxes (such as the San Francisco Bay area or the greater New York City area) will be more impacted by these changes, because a larger concentration of their donors will be impacted.

- **The interest on recent home loans** (originating after December 14, 2017) can only be deducted for loan amounts up to $750,000 for single people and married couples filing jointly for a qualified residence (either the primary residence or second home). For married individuals filing separately, interest on new loans up to $375,000 may be deducted. Interest on loans up to $1 million that originated before December 14, 2017 is still deductible.

  Because the change applies only to new loans and affects only people with loans between $750,000 and $1 million, its impact is relatively narrow in the short term. Home equity loans/lines of credit are included in "qualified loans" as long as the funds were used to substantially improve the home.

- **The deduction for job expenses** and miscellaneous deductions (in excess of 2% of a taxpayer's adjusted gross income) have been eliminated.

- **The "floor" for medical and dental expenses** remained at 7.5% for 2018 but will increase to 10% in 2019. This means that beginning this year, a taxpayer can deduct only the medical and dental expenses that exceed 10% of their adjusted gross income. A lesser amount of medical expenses can be deducted and fewer people will be able to take advantage of this deduction.

- **Moving expenses reimbursed by an employer** are no longer excludable from gross income, except under certain circumstances for members of the U.S. Armed Forces. If those expenses are paid directly by an employer, they must be included in the income reported to the employee.

  This change will affect congregations and other UU entities who reimburse moving expenses to newly settled religious professionals, as well as religious professionals

themselves. Such reimbursements are now considered taxable income.

- **Pease Limitations,** which had limited the deductions for home mortgage interest, state and local taxes, charitable contributions, and certain miscellaneous deductions for higher-income taxpayers, were eliminated.

- **Some credits and deductions were kept**, subject to limitations. These include the child tax credit, the earned income tax, the adoption credit and the student loan interest deduction.

- **Contributions to eligible charitable organizations**, including religious organizations, *are still deductible* by taxpayers who itemize their deductions. In some cases, the amount that may be deducted in any given year has increased.

WHAT'S THE DIFFERENCE BETWEEN A DEDUCTION AND A TAX CREDIT?

A *deduction* reduces the amount of income that is subject to taxation. A *tax credit* counts against any tax that is owed, much like a payment. Tax credits lessen an individual or couple's tax liability, even if they choose to take the standard deduction instead of itemizing.

WHAT DO THE CHANGES IN THE STANDARD AND ITEMIZED DEDUCTIONS MEAN FOR UU DONORS AND FOR CONGREGATIONS?

Many donors who took the standard deduction prior to 2018 should benefit from the changes. Their tax burden should be lower because the standard deduction went up. As a result, their net after-tax income should increase.

The changes may impact people who used to itemize before 2018, but whose itemized deduction total is now less than the newly increased standard deduction. To be clear: charitable contributions are still deductible. However, the new law removes the incentive to itemize for people whose deductions do not total more than the standard deduction.

Charitable contributions are still deductible. In fact, the 2017 Tax Act increased the amount an individual may deduct in a year for some taxpayers.

Donors at the highest income levels will continue to itemize if their eligible itemizations exceed $12,200 for single taxpayers, and $24,400 for married couples filing jointly.

Some high-income donors may be affected by the new cap on interest deductions for donors with mortgages over $750,000 but under $1 million, and the $10,000 cap on deductions for local and state taxes. That said, these changes were offset in the new law by decreases in marginal tax rates. Donors who are impacted by changes to itemized deductions may still owe less in taxes overall. Also, the removal of the Pease Limitations means that some higher-income donors may now be able to deduct more of their charitable contributions than in the past.

Many individuals and couples—especially mid-to-high income donors—may be uncertain about the overall effect of the 2017 Tax Act on their tax liability. They may be more conservative in their giving until they have a better understanding of how they are affected by the changes. The primary barrier to generosity may be uncertainty, rather than the concrete effect of tax law changes.

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A positive, reassuring message will be an important tool when communicating with donors. This can include reminders about the facts ("The 2017 Tax Act lowered taxes for many taxpayers, charitable contributions are still deductible," etc.) and reassurances (e.g. "If your financial situation changes in the next year and you need to make changes, that's okay.")

WHAT ABOUT CHANGES TO GIFT AND ESTATE TAXES?

The 2017 Tax Act doubled the value of the exemption from federal taxation—meaning fewer estates will be taxed federally. In fact, 99.9% of estates are now exempt from federal taxation. However, some states have lower thresholds for estate taxation. This is an area where donors with potentially taxable estates will need to work closely with their legal and tax advisors. Estate gifts to charity may still be of great advantage in terms of tax savings for some.

WHAT ARE SOME POSSIBLE TAX-SAVING STRATEGIES TO CONSIDER REGARDING CHARITABLE DONATIONS?

There are a few strategies that some individuals may wish to use. Donors considering these strategies should discuss each one with their tax and/or financial advisors.

"BUNCHING"

Some donors may choose to "bunch" their giving, in order to maximize the benefits of itemizing in alternate years. As an example, a donor pledging $5,000 per year to their congregation might elect to pay that pledge with a $10,000 contribution every other year (to cover two years' worth of giving).

Many congregations experienced this phenomenon in December 2017 when donors rushed to pre-pay their 2018 pledges and caused a spike in year-end giving. Congregations wishing to accommodate donors and manage their cash flow wisely should increase communication with donors and should plan ahead to account for possible changes in the timing of contributions. Congregations may also see an uptick in contributions that come through Donor Advised Funds, if donors elect to bunch their gifts in that way.

QUALIFIED CHARITABLE DISTRIBUTIONS

Some older donors may be able to make a "Qualified Charitable Distribution" ("QCD", sometimes referred to as an "IRA Charitable Rollover"). In short, the IRS allows donors 70½ or older to make contributions to qualified charitable organizations directly from their IRA accounts. This amount is limited to $100,000 per year per person. These contributions count toward the individual's yearly required minimum distribution.

By making a QCD, donors avoid paying any taxes on the distribution, *even if they do not itemize deductions*. In addition to speaking with their tax advisor, donors should contact their IRA administrator for more information.

APPRECIATED STOCK

An individual who is able to donate appreciated stock can give your congregation the full value of that stock, while avoiding the capital gain they would have realized by selling it. This can create an advantageous tax situation, even for donors who do not itemize.

If your congregation is not equipped to receive stock gifts, the UUA's Umbrella Giving Program may be a solution.

If a congregation is not equipped to receive stock gifts, the UUA can manage the transaction through its Umbrella Giving Program and produce a check for the congregation. Donors who contribute to congregations and other UU institutions through the Umbrella Giving Program are encouraged to designate a portion of the gift to the UUA, but that is not a requirement.

SUMMARY AND SUGGESTIONS

It's helpful to remember that not all donors will have been affected by the 2017 Tax Act, and many will have had their tax liability reduced. One effect of the 2017 "Tax Cuts and Jobs Act" was that it cut taxes for many Americans.

Change begets uncertainty and uncertainty sometimes begets anxiety. Some donors may be afraid they have been negatively affected by the 2017 Tax Act based on discussion among friends or in the media. Congregations and other charitable institutions can help defuse that anxiety by sharing facts and working with donors to accommodate new forms of giving.

Many donors believe that their charitable giving is no longer deductible. In your messages, be clear that the deduction for charitable giving remains in place. The new law did remove the incentive for some donors to itemize by substantially raising the standard deduction. Individuals should be encouraged to consult their own advisors.

Religious professionals who have historically been reimbursed for moving expenses should be aware that those reimbursements are now considered taxable income.

Congregations and UU institutions with constituents 70½ or older should consider a messaging campaign alerting donors to the benefits of Qualified Charitable Distributions (QCDs).

ADDITIONAL RESOURCES

Those who would like an in-depth analysis of the effect of the 2017 Tax Act on charitable giving can visit the following sites for more information:

- https://sharpenet.com/swp-tax-cuts-jobs-act-2017/
- https://sharpenet.com/webinars/

Those who would like more information about the UUA's Umbrella Giving Program should visit https://www.uua.org/giving/umbrella. A print-ready fact sheet is available.

For further questions, please contact the Office of Legacy Gifts, (888) 792-5885 or legacy@uua.org.

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