Community Foundation
Research and Training Institute

Knowledge Nugget #4: Taxes, Charitable Giving and Community Foundations – The Big Picture – Part I

Taxes, Charitable Giving and Community Foundations – The Big Picture, Part I

- Why Do People Make Charitable Gifts?
- The New Standard Deduction
- What Has Happened to Charitable Giving?
- Estate Taxes

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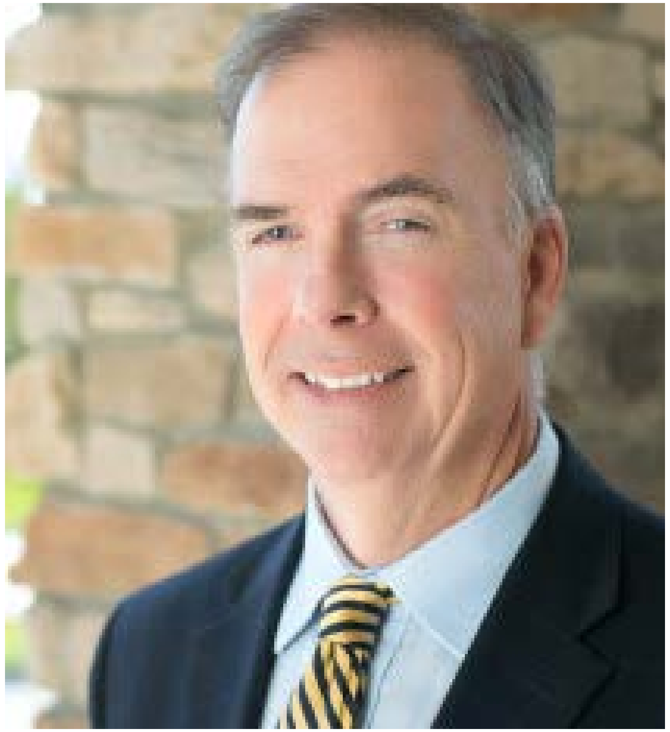


Why Do People Make Charitable Gifts?

Why do people make charitable gifts? There's really three main reasons.

Reason #1 – *The pure joys and rewards of charitable giving.* People feel good about supporting a cause or organization that is important to them. This is far and away the most important reason why people make charitable gifts.

Reason #2 – *To generate income.* Someone can set up something like a charitable gift annuity or charitable remainder trust, and get income while at the same time supporting a charity.

Reason #3 – *Tax benefits.* Some people are motivated to make a charitable gift because it can reduce their tax liability.

However ….

In the last 40 years the tax environment has changed in the United States.

When calculating your federal income tax liability, those who itemize their deductions can subtract the value of charitable gifts from their income. <u>*But far fewer Americans are itemizing their deductions*</u>.

In addition, estate taxes can result in a significant tax liability for a donor's estate. <u>*But far fewer Americans are subject to federal estate taxes.*</u>

Overview of Taxes and Charitable Giving

Tax Reform and Itemized Deductions

As shown on the next slide, with the tax reform legislation passed in 2017 the "standard deduction" increased significantly. The standard deduction is the amount a person can deduct from their taxable income.

If you don't take the standard deduction, you can "itemize" deductions. For most taxpayers, the three biggest itemized deductions are mortgage interest, state and local income taxes, and charitable gifts.

With the new higher standard deduction, far fewer Americans are itemizing. This means they can't deduct the value of charitable gifts they make.

New Standard Deduction

Married, Joint Return

2017 - $12,700, with personal exemptions of $4,050

2018 - $24,000, with no personal exemptions

- *2019 - $24,400*

Single

2017 - $6,350 with personal exemption of $4,050

2018 - $12,000, with no personal exemption

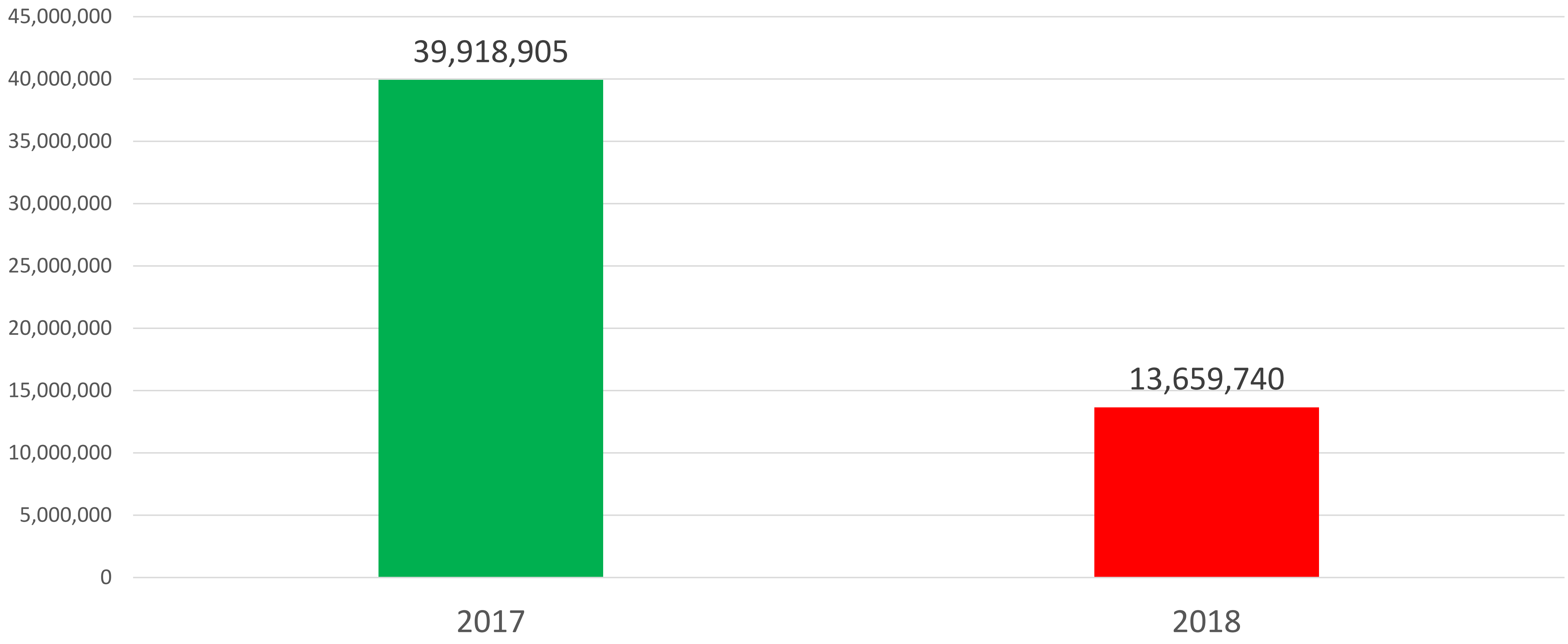
- *2019 - $12,200*

Fewer Itemize their Charitable Gifts

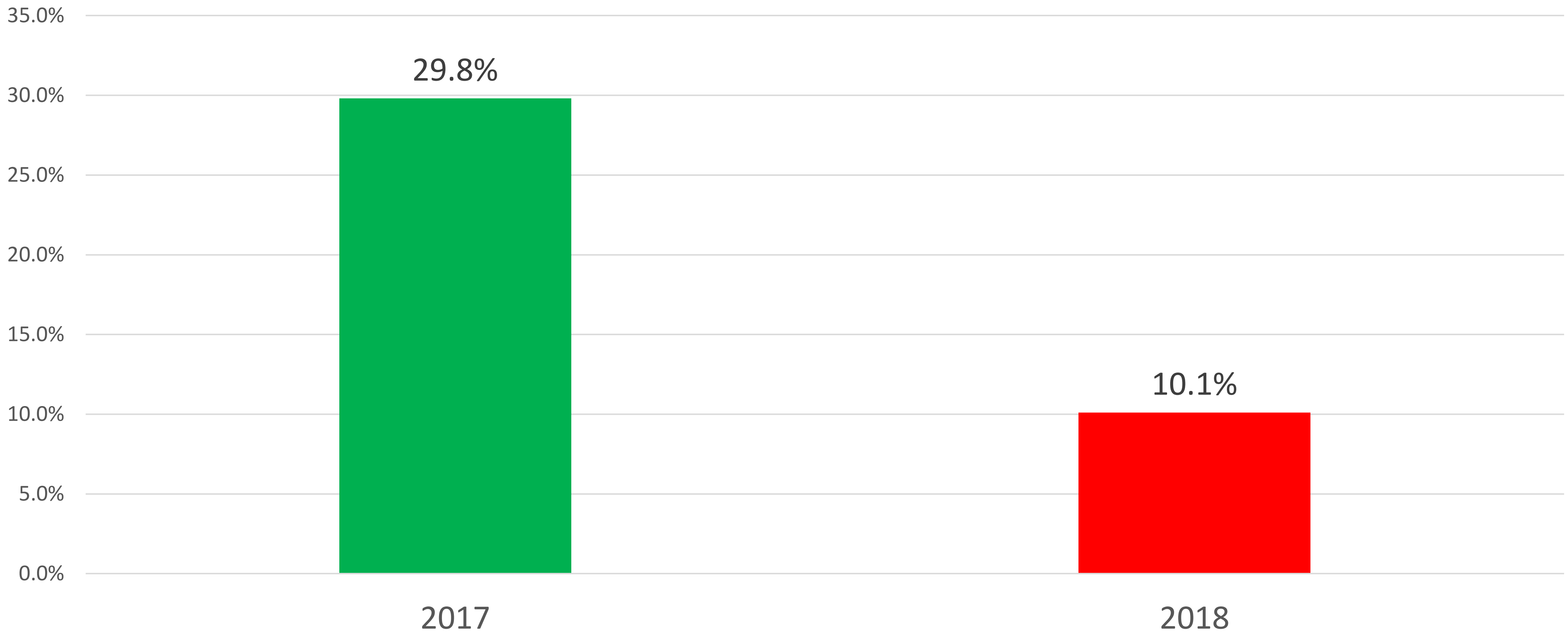
As shown on the next few pages, with the new higher standard deduction, far fewer taxpayers itemize their deductions. From around 40 million taxpayers in 2017, the number of itemizers fell to less than 14 million taxpayers.

In percentage terms, this is a drop in itemizers from about 30% to near 10%. For the last three decades the number of itemizers has hovered between 30% and 40% per year; the current rate of 10% is the lowest in half a century.

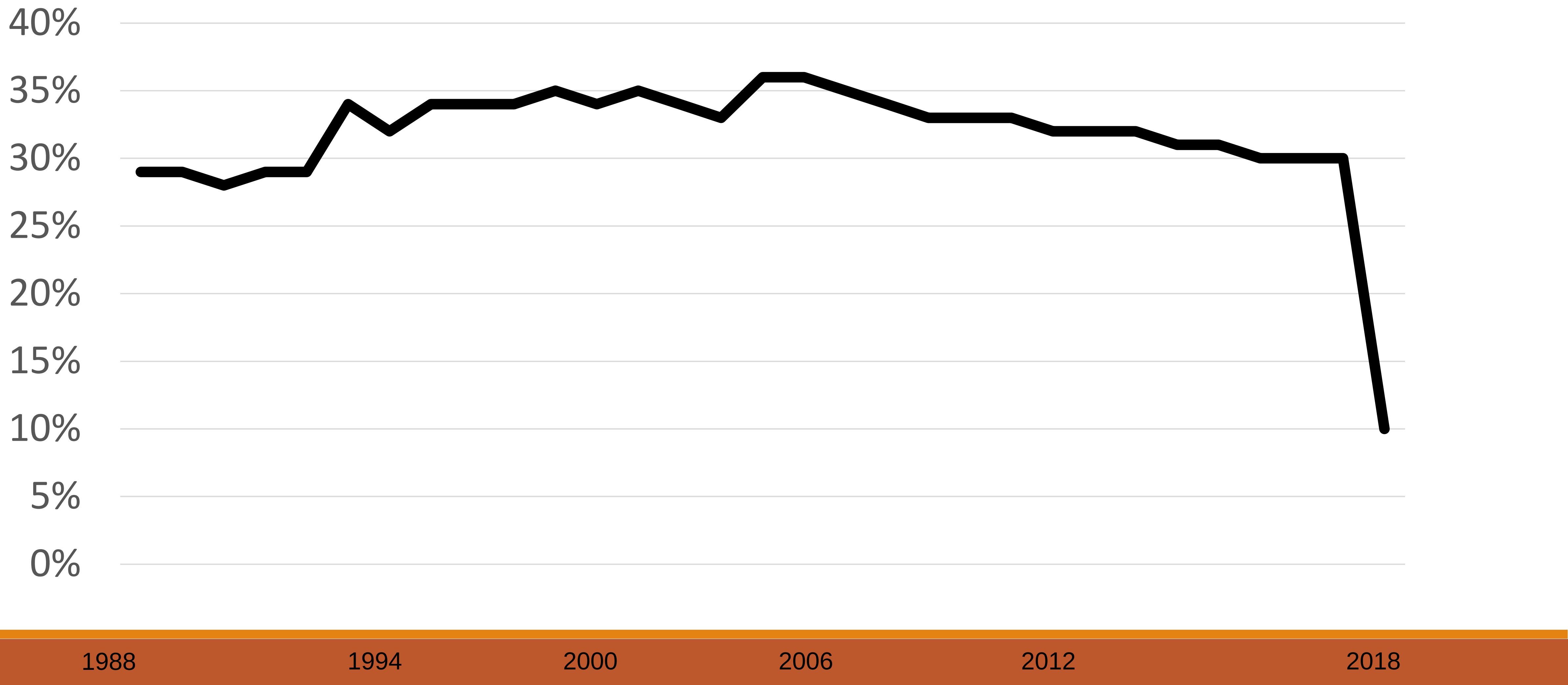
Returns with Itemized Deductions



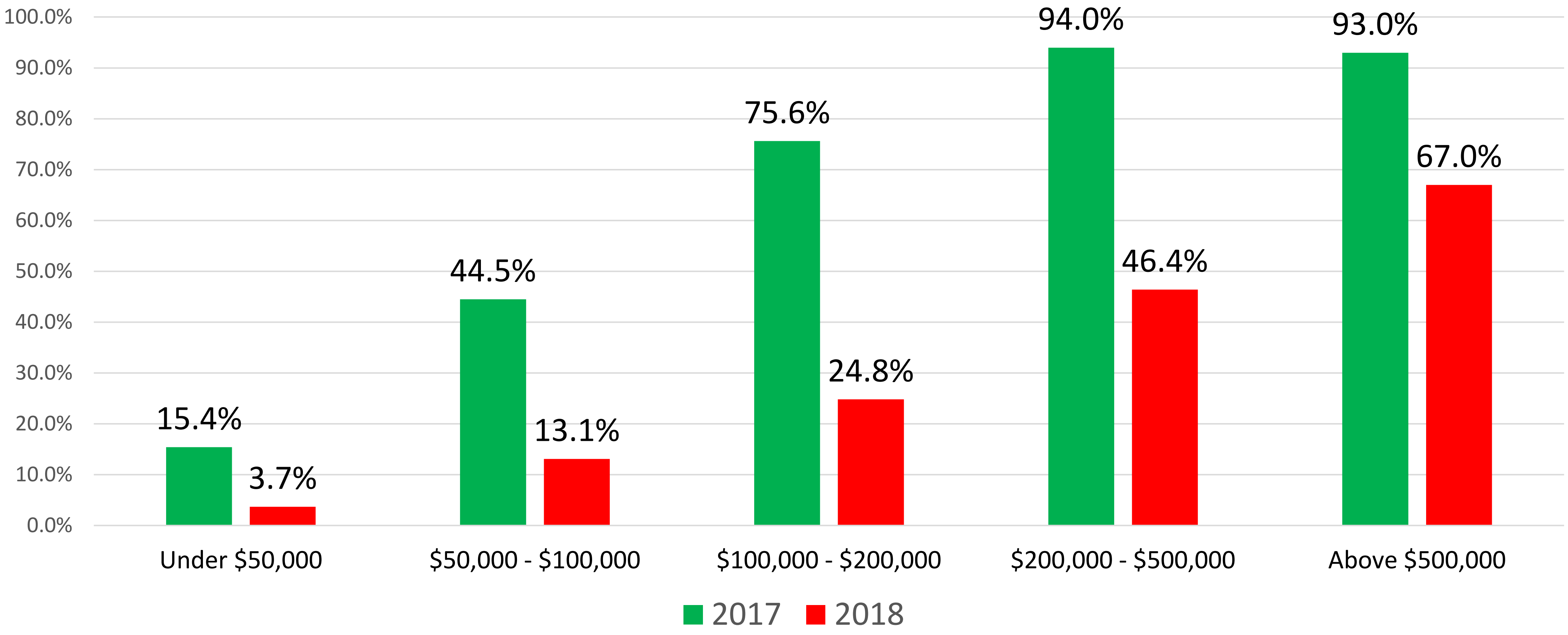
Returns with Itemized Deductions



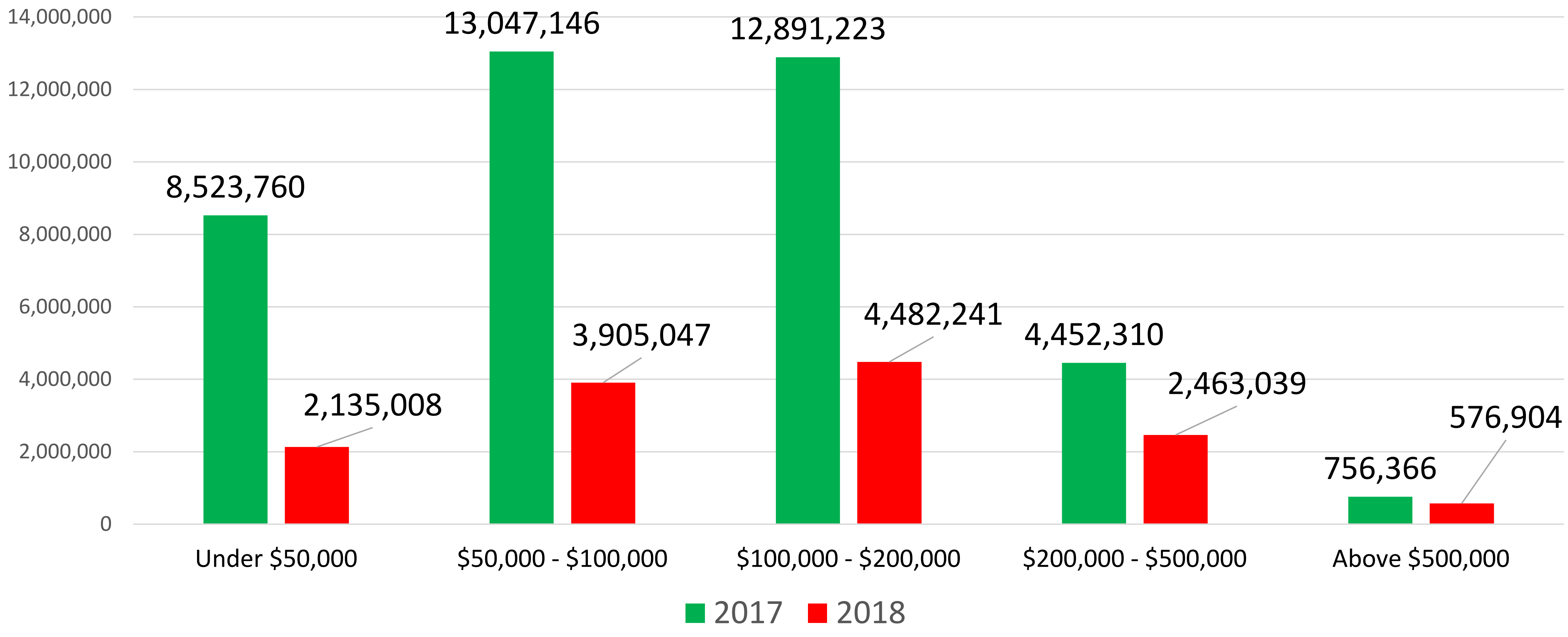
Percentage of Returns that Itemize



Returns with Itemized Deductions



Returns with Itemized Deductions



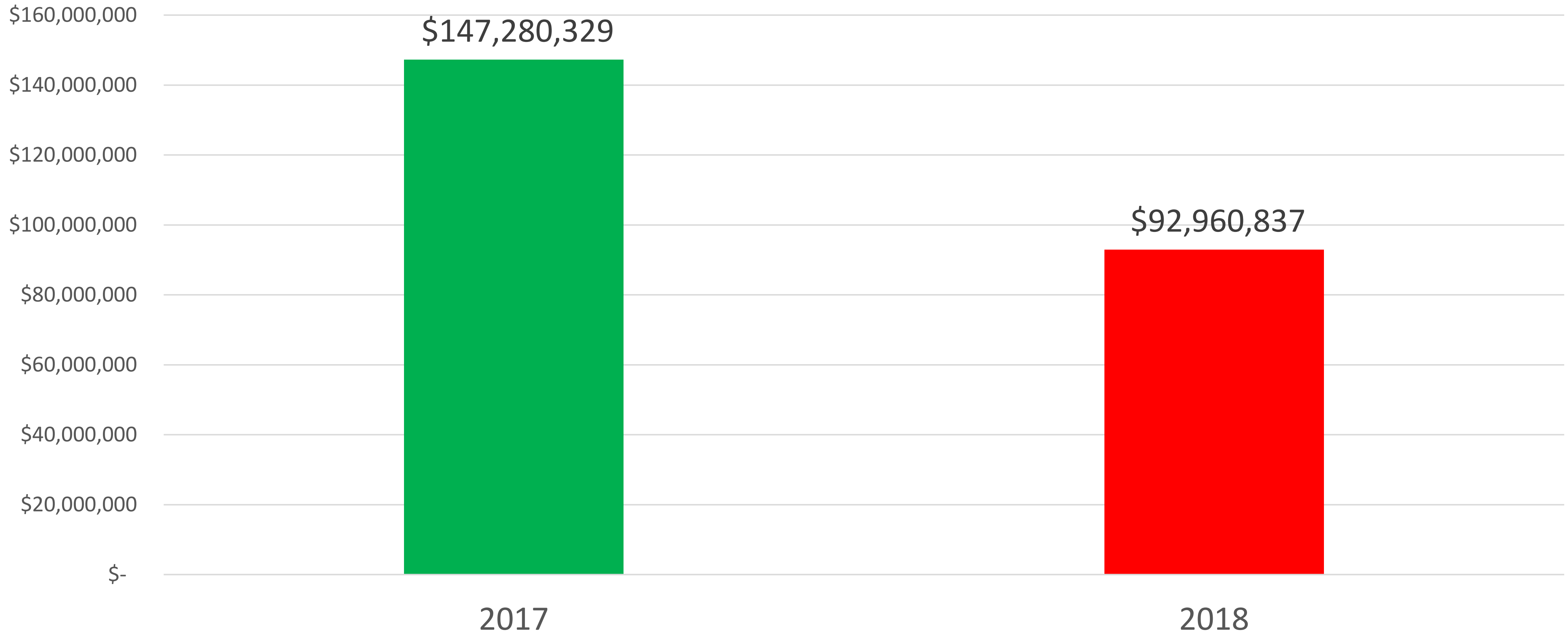
Effect on Charitable Giving

With far fewer taxpayers able to itemize their taxes, as you might guess the value of the charitable deduction taken on federal income tax returns has dropped, as well.

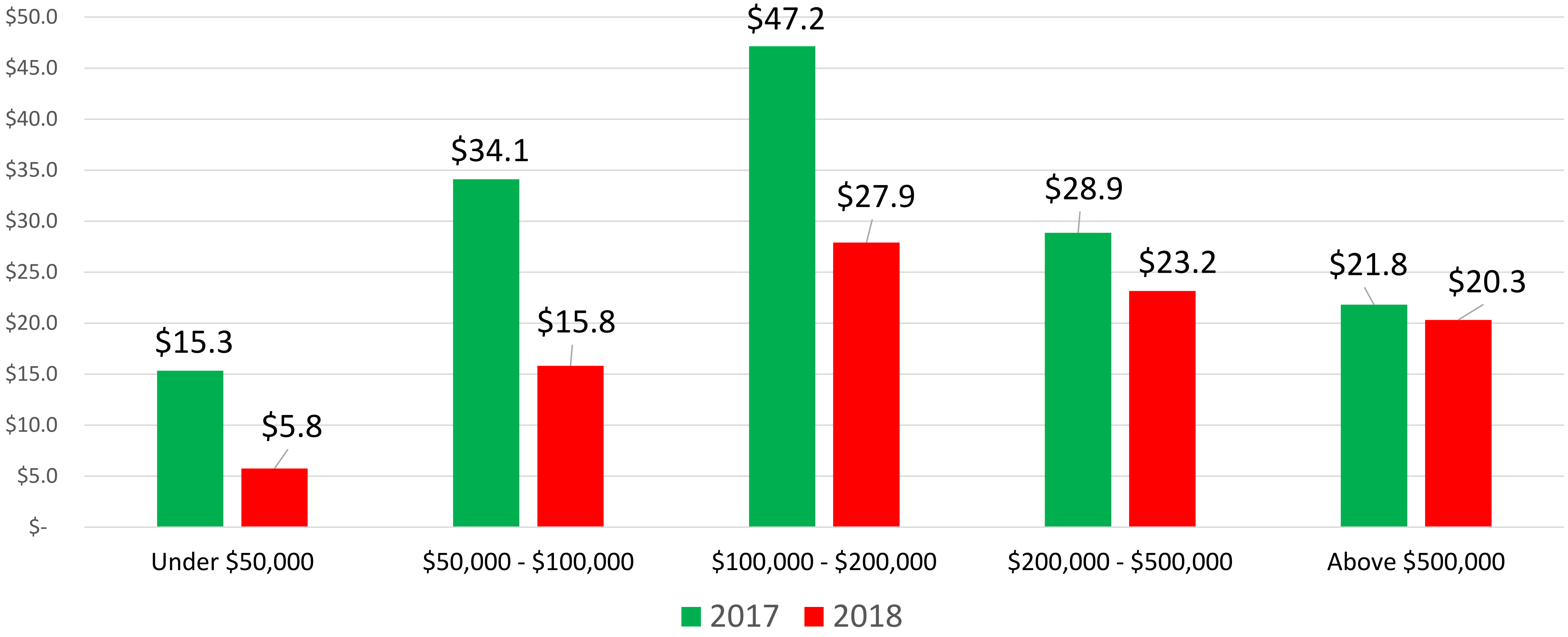
The chart on the next page shows that the amount of charitable gifts deducted on federal individual income tax returns fell from about $147 billion in 2017 to about $93 billion in 2018, a drop of $54 billion.

This does *not* mean that all charitable giving actually fell by $54 billion. It means that taxpayers were able to deduct $54 billion less in charitable deduction if they itemize on their tax return.

Charitable Contributions Deduction



Value of Charitable Contribution Deduction



What has this done to charitable giving?

Early data indicates that charitable giving has declined slightly since the new tax reform legislation was signed into law. The decrease is not dramatic – giving is likely down 4% to 5%. Still, this hurts charitable organizations.

Early Results

2018 vs 2017 – By Size of Gift

Source: Association of Fundraising Professionals

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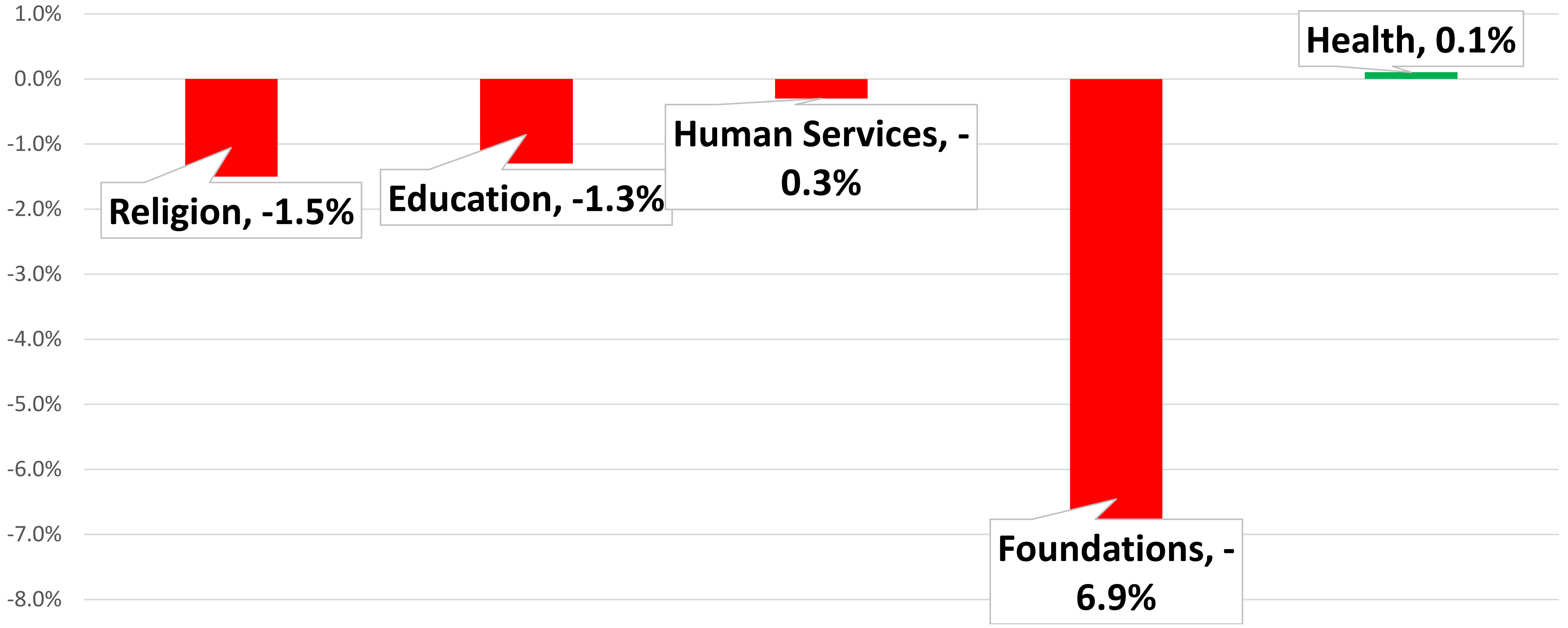
Giving USA Survey

Gifts Received – 2017 to 2018



Estate Taxes

It’s not just income taxes …

Tax reform legislation made a significant impact on estate taxes, as well.

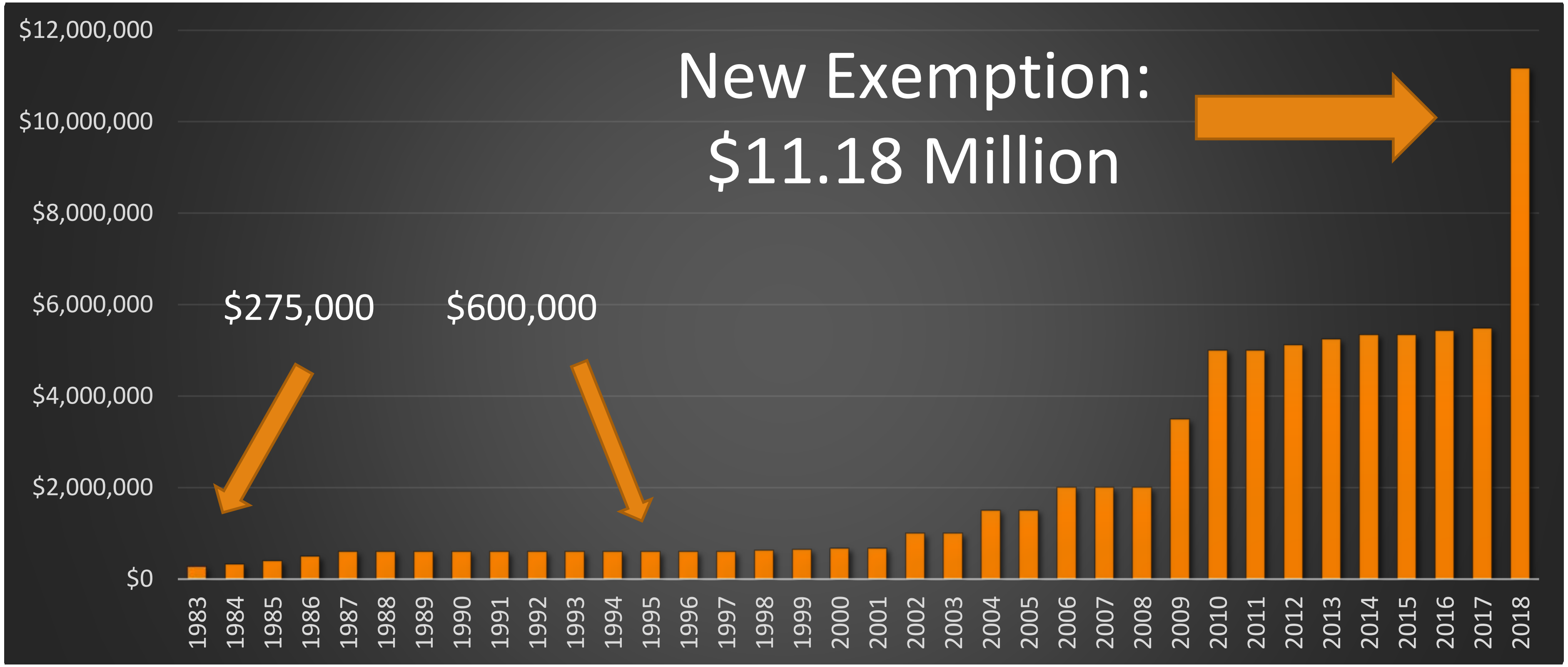
When someone dies, the value of their estate is calculated, and the deceased owes taxes on any amount above the estate tax exemption. There is a federal estate tax; in addition, some states have a state estate tax.

There are significant exclusions to the estate tax – for example, a spouse can inherit an unlimited amount of assets from their deceased spouse with no taxes due.

But if a deceased taxpayer gives assets to someone other than a spouse – even a child – then any amount above the estate tax exemption can be taxable (at rates as high as 40%).

As shown in the next chart, the amount of the federal estate tax exemption has soared in the last twenty years.

Estate Tax Exemption



Estate Tax Exemption – A History

As the previous slide shows, over the last 40 years the federal estate tax exemption has risen dramatically.

When I first began working as a CPA, in 1983, the estate tax exemption was just $275,000 (That's per person, so it is twice that amount for a married couple). Many of my clients had estates in excess of that amount, and they would include charitable giving in their estate plan to reduce their excise tax bill.

A dozen years later, in 1995, when I began my career as the executive director of my community foundation, the exemption had risen to $600,000. Many donors had estates larger than that, so they left an estate tax gift to the community foundation to save on taxes.

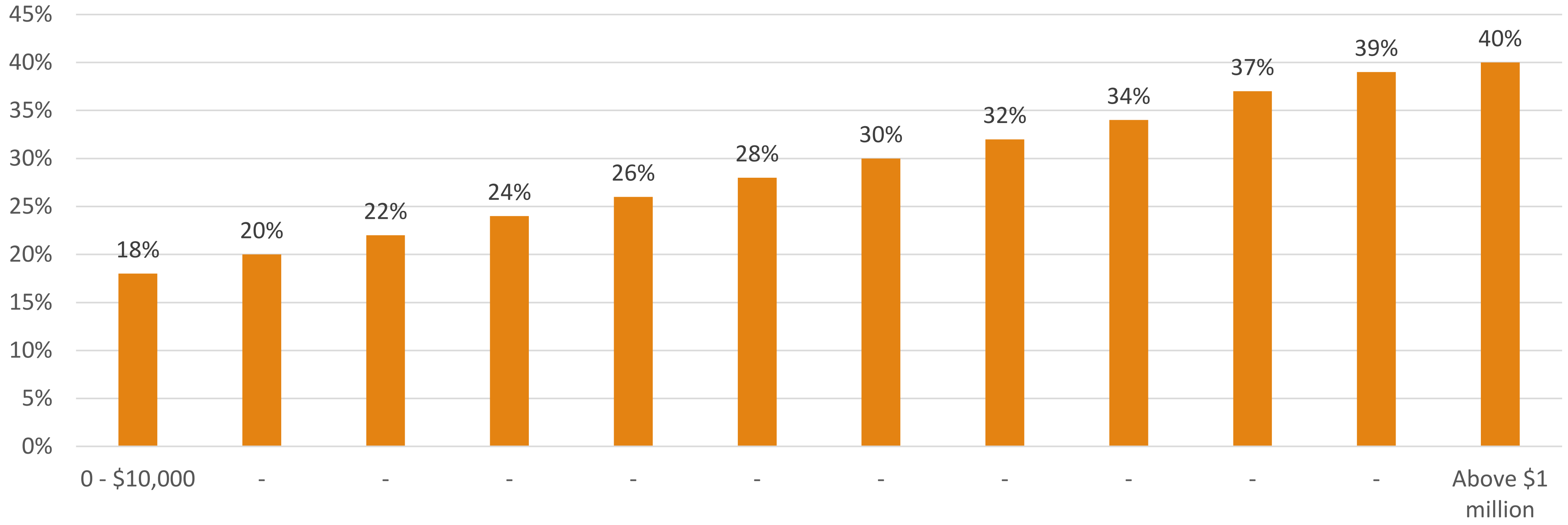
Estate Tax Rates Can Be High

If your estate exceeds the exemption amount, the estate tax liability can be high.

As shown on the next page, for an estate valued at more than $1 million above the exemption amount, the marginal rate is 40%.

This is part of the reason why donors make charitable gifts in their estate plans. For a donor with an estate above the exemption amount, a charitable gift in an estate plan removes those assets from the donor's estate – and cuts their estate tax liability by as much as 40% of the value of the asset.

Estate Tax Rates



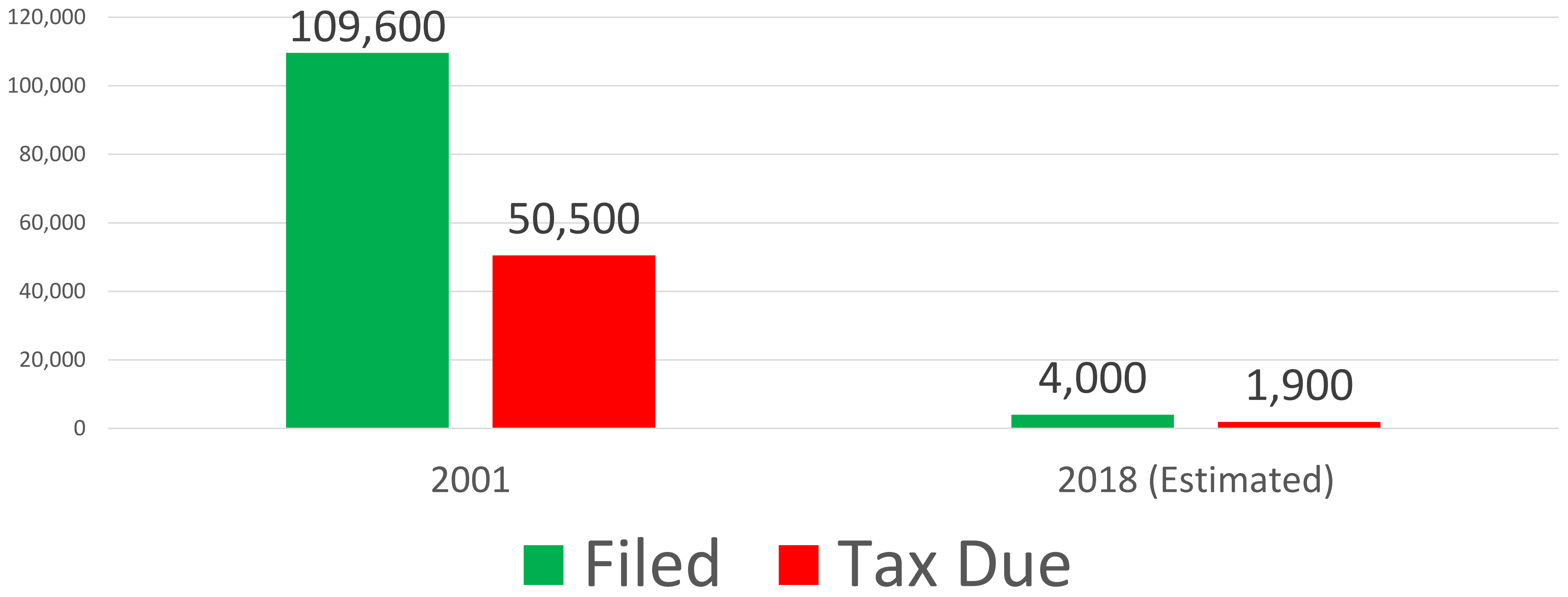
Fewer Donors Pay Estate Tax

Now, with the individual exemption at $11.58 million per individual (twice that for a married couple), very few estates are subject to any estate taxes.

As shown on the next slide, it's estimated that in 2018 fewer than 2,000 estates nationwide were subject to the estate tax.

Estate Tax Summary Data

Source: Tax Policy Center



So … what does this all mean?

Changes in the tax laws mean that far few people get a tax benefit from making a charitable gift, either in the lifetime or upon their death.

This doesn't mean charitable giving will stop – because the main reason people give is for the joy of charitable giving, and that has not changed.

Nevertheless, the tax incentives (either income tax or estate tax) have been greatly reduced.

Despite these changes, though, there are still gifts that can be made which can reduce a donor's tax liability – even if they are not ultra-wealthy.

We will discuss those changes in Part II of our Knowledge Nuggets on *Taxes, Charitable Giving and Community Foundations.*

My Contact Information

That's it for this Knowledge Nugget. If you want to test what you learned, there's a short quiz located elsewhere on this website.

If you have any questions or comments, please contact me using this information

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Keep up the good work … what you are doing for your community is so important.