Charitable Giving in the Wake of TCJA

Millions of Americans are expected to switch from itemizing to taking a standard deduction on their 2018 federal taxes. How can they still get a tax break on their charitable contributions?

More than 28 million taxpayers are expected to switch from using itemized to standard deductions on their 2018 taxes.

If you are among the millions of Americans who have traditionally deducted charitable contributions on your tax return, you may be in for a surprise. Because the Tax Cuts and Jobs Act of 2017 (TCJA) nearly doubled the standard deduction, from $6,500 to $12,000 ($24,000 for joint filers), many who formerly itemized their deductions will end up taking the standard deduction instead. That means they will no longer be able to deduct their charitable contributions on their tax returns.

In fact, the Joint Committee on Taxation estimates that the number of filers who itemize will fall from 46.5 million in 2017 to just over 18 million in 2018, meaning that about 88% of the 150 million households that file taxes will take the increased standard deduction.

For many people, this will have a notable impact on their charitable contributions. People tend to give more to charity when they receive a larger tax benefit, and many are expected to reduce their donations. One study by the University of Pennsylvania projected that charitable contributions would fall by $22 billion for the 2018 tax year as a result of TCJA. This reduction represents a 5.1% reduction in total charitable giving, and a 9.6% reduction in charitable giving reported on individual tax returns.

Tax-Friendly Alternatives

If you find that you no longer reach the itemization threshold, yet still wish to get the most out of charitable contributions, here are several strategies you may wish to consider.

- **Give appreciated investments.** The IRS allows donors to deduct an investment's full market value (subject to certain limits) without having to pay capital gains tax on the appreciation. For example, if you donate stock shares originally purchased for $1,000 but currently worth $10,000, you can take the $10,000 deduction without having to pay capital gains tax on the $9,000 appreciation.

- **Contribute through an IRA.** For donors who are age 70½ or older, direct contributions of up to $100,000 can be counted toward their required yearly IRA distributions and will not be included in their taxable income.

- **Contribute to a donor-advised fund.** With this strategy, you make a large contribution in one tax year to establish or add to a donor-advised fund -- one large enough to enable you to itemize deductions that year. In subsequent years, when your deductible expenses are not large enough to itemize, you can ask the donor-advised fund to make a distribution to a specified charity, thereby continuing your support of it.

- **Bunch.** Rather than giving a small amount every year, give a larger amount every other year. For example, instead of giving $1,000 to charity annually, give $2,000 every two years. This may help you to surpass the itemization threshold in alternate years, and allow you to take a deduction for all your charitable contributions.

If you still itemize deductions, keep in mind that your total deduction for cash
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Contributions generally cannot exceed 60% of your adjusted gross income (AGI), up from 50% for 2017. A number of other rules apply to deducting charitable contributions. To learn more about them, see IRS Publication 526, Charitable Contributions.

Make sure to keep accurate records of all your donations, such as receipts, canceled checks, or credit card statements. And work with your accountant or qualified tax advisor, who can help you get the most out of your charitable contributions.

1 Source: Tax Foundation, Nearly 90 Percent of Taxpayers Are Projected to Take the TCJA’s Expanded Standard Deduction, September 26, 2018.