

SIGNATURE FD

## CHARITABLE GIVING: CHANGES AND STRATEGIES IN 2018

With a whirlwind of tax code changes that have come into effect this year, below are some opportunities to consider for your 2018 charitable giving plan.

Two of the biggest changes are:

- the elimination of personal exemptions
- the increase of the standard deduction

Each year, taxpayers have the option to choose between taking the standard deduction or to itemize expenses. You deduct charitable contributions from your income through an itemized expense report and the standard deduction acts as a hurdle rate. If your itemized deductions fall short of the standard deduction, then you should take the standard deduction. Below, we've outlined the standard deduction rates for 2018 compared to last year's rates.

Filing Status:	2018 STANDARD DEDUCTION	2017 STANDARD DEDUCTION	YEAR-OVER-YEAR INCREASE
<b>SINGLE</b>	\$12,000	\$6,350	+\$5,650
<b>MARRIED (JOINT)</b>	\$24,000	\$12,700	+\$11,300
<b>MARRIED (SEPARATE)</b>	\$12,000	\$6,350	+\$5,650
<b>HEAD OF HOUSEHOLD</b>	\$18,000	\$9,350	+\$8,650
<b>OVER 65 OR BLIND (MARRIED)</b>	+\$1,300	\$1,250	+\$50
<b>OVER 65 OR BLIND (SINGLE)</b>	+\$1,600	\$1,550	+\$50

Charitable deductions are limited by your adjusted gross income (AGI). Previously, deductions for cash contributions to charity were limited to 50% of AGI. So, if your AGI was \$100,000 last year, you could deduct \$50,000 for 2017. For 2018, the limit increased to 60% of your AGI, which will allow you to deduct another \$10,000 for the year.

Long-term appreciated assets (such as stock held for more than a year) are still eligible for deduction at up to 30% of your AGI. If you exceed these limits, then you can still carryforward the deduction for up to five years, which applies to all types of contributions.

Many of the itemized expenses have changed for this year as well. Here are a few examples:

- Limited state and local tax deductions up to \$10,000 total per year
- Lowered floor on medical expenses from 10% of your AGI to 7.5% (2017 & 2018 only)
- Lowered limit on new home acquisition mortgage interest with interest on the first \$750,000 of debt principal for new mortgages. However, the previous limit of \$1,000,000 is grandfathered for existing mortgages with binding written contracts on or before December 15th, 2017 to close on a principal residence by January 1st, 2018 (you must have actually closed by April 12th, 2018).
- Suspended deduction for home equity expenses, with the exception of debt used to acquire, build, or substantially improve your primary residence
- Suspended miscellaneous expense deduction

This list is non-exhaustive, so it is important to consult your tax advisor and financial advisor. We do, however, have a few suggestions that may help as you consider how these new changes will affect your giving strategies.

## DONOR-ADVISED FUNDS (DAFS)

In this strategy, you gift cash or an appreciated asset to a donor-advised fund and receive a deduction for that year. However, you don't have to decide which charity the funds will ultimately benefit at the time of the gift as long as you give the funds away. When you are ready to distribute the funds from the DAF, you submit a grant recommendation to the charity of your choice.

This can be an excellent tool to gift appreciated, long-term (a holding period of longer than one year) assets. At SignatureFD we offer DAFs through Schwab, Fidelity, and other third parties.

Charitable "lumping" or "stacking": This strategy is based on the timing of your gifting. If you typically make donations at the beginning of the year, consider moving your gift up to the end of the prior year.

- **EXAMPLE:** If you typically give in January and you already gave in January 2018, instead of waiting until January 2019, give again in December 2018. This will allow you to group together gifts for a single tax year. In addition, if your itemized deductions are below the standard deduction amounts, you can make a larger one-time charitable contribution into your DAF to fund multiple years of gifting.
- **EXAMPLE:** If you typically give \$10,000 annually to charity and do not have any other itemized deductions, you will not see the incremental tax benefit of this gift because you will claim the standard deduction with or without the gift. However, you could gift \$50,000 into a DAF to fund the next five years of charitable gifting and then be able to claim the itemized deduction in the tax year that you fund the DAF.

## QUALIFIED CHARITABLE DISTRIBUTIONS (QCDS)

This strategy is effective if you are 70 1/2 or older and subject to required minimum distributions (RMD) from your IRA. To complete a QCD, you take an amount up to \$100,000 from your IRA and send it directly to a charity. This will count for your required minimum distribution and will not count toward your taxable income. It may also allow you to qualify for certain tax benefits that a required minimum distribution may push you above the thresholds for (such as taxable social security and higher Medicare premiums).

Remember, it's important to work with your financial advisor and tax advisor to ensure that you follow the IRS rules, as there are many nuances that they can help you navigate. For instance, you become ineligible for QCD treatment if the funds ever come directly to you or if they don't end up with a qualified charity. Additionally, the reporting from your IRA custodian will typically not show that a QCD was completed. Your tax advisor must manually add this to line 15 of your 1040 tax form. As a note, a QCD may not go to a donor-advised fund.

Of course, it is always important to start with asking why. The "why" for most charitable contributions is not to simply gain a tax deduction. The deduction instead serves as an extra incentive or as a catalyst to give even more.



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