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NONPROFIT PERSPECTIVES

How Tax Law Changes May Impact Charitable Giving

Whether we look at the blueprint for tax reform put forth by Republican House Ways and Means Committee members, the deliberations of the Senate Finance Committee's bipartisan tax reform working groups or the tax proposals of President-elect Trump, there is a very real possibility that tax rates will be lowered in the near future. While the Internal Revenue Code (IRC) hasn't seen a major overhaul since 1986, the tax law as we know it today may not be the tax law next year.

What does this mean for America's charitable organizations? In a nutshell, charities should encourage donors to contribute before the end of the year to take advantage of more impactful deductions that may not be available if rates are lowered in the future. Accelerating charitable deductions now could be critical to maximize fundraising if near-term tax reforms include a dollar cap on total itemized deductions like charitable donations. Favorable provisions that now allow fair market value deductions for gifts of appreciated property to charity could come under scrutiny as well, further complicating fundraising potential.

Regardless of what unknown tax code changes are on the horizon, encouraging giving now—while the outcome is predictable—is imperative.

Below are some of the details of tax changes President-elect Trump proposed during his campaign:

Lowering the number of tax brackets for married joint filers from seven to three at the following rates:

- Less than $75,000: 12 percent
- More than $75,000 but less than $225,000: 25 percent
- More than $225,000: 33 percent

Capping itemized deductions and increasing the standard deduction:

- President-elect Trump proposed capping itemized deductions at $200,000 for married joint filers or $100,000 for single filers. These deductions would include charitable deductions, mortgage interest deductions, state tax deductions and others.

- The Trump plan would also increase the standard deduction for joint filers from $12,600 to $30,000, and the standard deduction for single filers will be $15,000. This means fewer people may be itemizing their deductions, and therefore may not be as concerned about generating deductions throughcharitable contributions.

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Estate tax:

- Trump has also proposed eliminating the federal estate tax, currently at 40 percent. Charitable contributions from an estate reduce the overall taxable value of the estate. If there is no estate tax, charitable requests may be significantly reduced.

The future of charitable giving incentives

The charitable deduction is one of the ten largest tax expenditures in the IRC and has long been subject to proposed modifications, including extensive hearings held in 2013, which we covered here in the Nonprofit Standard blog. Proposals to limit the deduction have included dollar caps, floors below which contributions may not be deducted, credits instead of deductions and more. In addition to monetary contributions, many hearings have even included debate on whether the treatment of gifts of property to charities should be revisited. Every time changes are proposed, the nonprofit industry seeks to analyze how the proposals would raise revenue and impact charities.

Not all tax code changes negatively impact charities, however. Last year, Senators John Thune (R-S.D.) and Ron Wyden (D-Ore.) introduced the Charities Helping Americans Regularly Throughout the Year (CHARITY) Act. Among the provisions in the CHARITY Act, the Senate asserted that the promotion of charitable giving should be one of the goals of comprehensive tax reform. The House Tax Reform Blueprint would also provide incentives for charitable giving.

As charities make one final fundraising push to end 2016, they should encourage donors to make gifts now while the tax outcome is certain, rather than waiting until next year when the rules may be changed in a way that negatively affects their bottom line. Despite the interplay between tax deductions and charitable giving, the 2014 U.S. Trust Study of High Net Worth Philanthropy found that a desire to make a difference (73.5 percent) and personal satisfaction (73.1 percent) were the main motivators in giving, while tax benefit was cited by just 34.4 percent of respondents. In looking at those statistics, it's clear that conveying a compelling mission is key to attracting and retaining donors.

There is enormous competition for charitable donations. It's essential to make your organization's mission emotionally compelling and relevant to take advantage of current favorable giving arrangements that may not last.

Article reprinted from the BDO Nonprofit Standard Newsletter (December 2016). Written by Laura Kalick, JD, LLM in Taxation.