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# Charitable giving and the New Tax Act

*Charitable planning is very different for those under or over age 70 ½*

by Dennis Mitzel

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**The primary purpose** of charitable giving is to support the Church and other charitable causes, not to obtain tax benefits. Nonetheless, it is important to understand how your giving may be affected by changes in the tax law in order to take advantage of any tax deductions associated with your charitable gifts.

Charitable planning is very different for those under or over age 70 ½.

## **Under Age 70 ½: Change in Standard Deduction**

One of the biggest changes in the new act was the doubling of the standard deduction. This means that there is no need to track itemized deductions unless total deductions exceed the new standards: \$12,000 for singles and married couples filing separately, \$18,000 for heads of households, and \$24,000 for married couples filing jointly.

This change in the standard deduction does not affect:

- People who formerly claimed the standard deduction.
- Those who have made extremely large charitable gifts and are well beyond the new standard deduction level.

The law can affect, however, those who itemized under the old law, but whose deductions will now fall near or below the higher standard deduction limit. There are options for these people to consider:

**1) Continue Current Pattern of Charitable Giving** Most individuals will likely continue their current pattern of giving and not worry about the impact of the new law.

**2) Bunch Charitable Gifts** Some may bunch their charitable giving so as to make two or three years' worth of gifts in a single year. By concentrating the gifts in one year, they can itemize in that year and use the standard deduction in the alternate years.

**One of the practical** considerations of bunching is that the donor must have the funds available at the end of the bunching year in order to prepay the following year's planned contributions. This issue can sometimes be addressed by using gifts of securities rather than cash. This has the added advantage of providing a charitable deduction without having to recognize any capital gain.

Some may prefer to bunch their gifts in one year but still have the payments spread out over time. One technique that can address this issue is the use of a donor-advised fund,

that is, a fund which allows a contribution to be made in one year but allows those funds to be redistributed to charity over time as requested by the donor. Donor-advised funds are operated by many institutions including the Catholic Foundation of Michigan (Archdiocese of Detroit), The Catholic Foundation of the Diocese of Lansing (soon), and most financial institutions.

## **Over Age 70 ½: Dramatic New Opportunities**

Individuals who are over 70 ½ and have IRAs have a great opportunity under the charitable rollover rules. Individuals age 70 ½ or older may transfer funds directly from their IRAs to a charitable organization without needing to report the withdrawal as taxable income. This will give them a 100% reduction in income for their gifts, whereas they might not have received any benefit for a direct cash gift. This benefit is so dramatic that most individuals over 70 ½ should be making all charitable contributions from their IRAs.<sup>1</sup>

Individuals interested in learning how the new tax law affects their own situation should discuss these issues with their own tax advisor or financial planner.

<sup>1</sup> 12-14-21: Due to a recent change in legislation, the age for required minimum distributions has been delayed until age 72, but the age to take advantage of an IRA direct charitable gift remains age 70 ½.