

# The New Tax Law— What Are the Opportunities?



WHATCOM  
COMMUNITY  
FOUNDATION

Among the recent revisions to the tax code, there are implications for your charitable giving. First, donors may deduct up to 60% of their **Adjusted Gross Income (AGI)**, up from 50%. While that's great news, it will only apply to the small percentage of donors who itemize. The other changes may actually be problematic for many donors and the nonprofits doing the work that matters to them. Happily, the Community Foundation can help.

## The Standard Deduction

The standard deduction—mortgage interest, state and local taxes, charitable giving and other select expenses—is now \$12,000 for individuals and \$24,000 for joint filers, up from \$6,350 and \$12,700 respectively. It is estimated that the percentage of people itemizing their deductions will drop from 30% to 4%. For some, that may affect their charitable giving. A change in giving patterns could have a profound effect on nonprofit budgets and cash management.

“**Bunching**” offers a solution. Bunching is the practice of consolidating multiple years of charitable giving into a single year through a **Donor Advised Fund (DAF)**. Bunching makes it possible for donors to take advantage of the charitable deduction when their bunched gift combined with other eligible expenses exceed the standard deduction. The **DAF** allows donors to maintain their typical annual giving patterns while smoothing the contribution income that nonprofits receive.

## What's a DAF

**DONOR ADVISED FUNDS** are separate funds established at a public charity (see IRC Section 170(c)), often a community foundation, which has extensive knowledge of potential grantees, and local opportunities and needs. DAFs enable donors to enjoy any tax benefit for which they are eligible at the time of their gift. Over time, donors can make recommendations to the public charity about where grants from the DAF will go.

## Reducing Taxable Income

People **70½** and older with **Individual Retirement Accounts (IRAs)** must take a **Required Minimum Distribution (RMD)** from their IRA. The **Qualified Charitable Distribution (QCD)**, distributions made directly from the IRA to a charitable organization, reduce their taxable income. As a result, QCDs may reduce donors' tax bill, depending on their individual circumstances. This benefit applies even if you don't itemize.

While **Donor Advised Funds** are prohibited from accepting **QCDs**, the Community Foundation has other donor options. You can give to an existing fund or create a fund that matches your philanthropic goals. The key is for donors to specify their wishes *prior* to the Community Foundation receiving the gift.

### Donating your Required Minimum Distribution Direct from IRA to Nonprofit Organization



Participants need to be 70 ½ & older

QCD's distributed directly from the IRA to the charitable organization can reduce taxable income.

Maximum \$100,000 per person



**Individual  
Retirement  
Account**



**Designated,  
Pass Through &  
Other Funds\***

*\*Donor Advised Funds are currently excluded from QCD eligibility.*

The new tax law also includes a significant change regarding estate planning, roughly doubling the estate tax exemption to \$11 million for individuals and \$22 million for couples.

## What can you do?

### AS A DONOR:

If you don't already have a DAF, consider starting one. It's easy!

If you are eligible for a QCD from your IRA, consider directing your RMD to one of the many Community Foundation fund options (see below) or to the Community Foundation itself.

Talk to your professional advisors about the implications of the new law on your individual situation.

### AS AN AMBASSADOR:

Share this information (*we are in the process of adapting this piece as an informational piece for the donor, nonprofit and professional advisor\*\* audiences*) with the professional advisors you know, as well as your friends and associates.

This is also an excellent opportunity to share with people the advantages of a Community Foundation DAF versus a commercial DAF (e.g., Fidelity, Schwab, etc.):

#### Knowledge & expertise:

- Local needs and opportunities
- Philanthropy and the nonprofit sector
- Local, national and global grantmaking utilizing a network of philanthropy partners that serve as resources when necessary

**Nominal fees make a broad range of Foundation-led nonprofit services and community initiatives possible.**

## What funds already exist at the Community Foundation?

### Fund for Whatcom County

The most flexible fund, making it possible to adapt to ever changing local opportunities and needs.

### Project Neighborly

Fueling bright ideas that make Whatcom County a more welcoming, safer place for all.

### Field of Interest Funds

Focusing resources on individual elements of a community, including arts, education, environment, equity, (housing, food, and the economy) animals and health.

### Nonprofit Endowment Funds

Permanent funds supporting the organizations that matter most to you.

### Whatcom Scholarship Fund

Investing in the promise of local youth continuing their education post-high school.

The Community Foundation does not provide tax or legal advice. Please consult your professional advisor(s) to discuss your individual situation.

*\*\*Estate planning attorneys, CPAs, financial planners and others*