

The Giving Season: Understand the Impacts to Charitable Gifting Under the New Tax Laws

The holiday season is fast approaching and as the new tax law is nearing its one year anniversary, it is important for Montgomery County residents to understand how charitable gifting is affected by the new law. An estimated 30 percent of charitable donations happen during the last month of the year, from #GivingTuesday through December 31, so now is the time to educate yourself.

Changes to the Standard Deduction

According to an article in *Kiplinger Magazine*, due to the changes in tax law beginning with 2018, the percentage of taxpayers itemizing deductions will

decrease from 30 percent to 10 percent. This is because the new law provides for a higher standard deduction while at the same time placing a cap of \$10,000 on the combined state, local, sales, and property tax deductions. Therefore, in order to have your charitable deductions count, you may want to consider a “charitable bunching” strategy whereby larger donations are made in years you wish to file itemized tax returns and then you skip subsequent years and file standard tax returns.

This could work well for those who support a local charity, church or school

and give them a real opportunity to fund their larger goals. However, if you prefer to give smaller amounts but on an annual basis, continue reading about donor-advised funds where you can have your tax deduction and maintain the utmost flexibility in how much and when you give to charities.

Donor-Advised Funds

Another way to utilize charitable bunching is to contribute to a donor-advised fund. A donor-advised fund is a type of fund you set up to receive stock or mutual fund donations and then convert them into cash. It allows you to receive an immediate tax deduction on a lump sum stock contribution and then take your time deciding how to spend that money by issuing checks to your favorite charities, similar to an online bill-paying account.

Any money not donated stays in the account which is invested in an index portfolio and can grow tax-free. This option is appealing to people who enjoy making the donation decisions together from year to year and the fund can live on from generation to generation. Here again, you would make a large donation one year and skip the next while filing under the standard deduction.

Clients of ours simply tell us how much they would like to donate, and we select securities which have grown, thereby saving them from paying capital gains tax. Once deposited into the donor-advised fund, they can then direct checks be sent to their desired charities.



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Clients can also request monthly checks be sent to the same charity. If clients are not interested in online access, we are happy to direct gifts if requested. Donations (or grants) must be at least \$50, and accounts can be opened with a minimum \$5,000 stock or mutual fund contribution. As an added bonus, you'll get a list of all of your donations and a report of the total tax-deductible amount for the year.

The advantage is twofold. Donations to a donor-advised fund can be timed for when the security's value is high, but gifts can be given when the charities need it most. Donors love the ease of these accounts instead of making cash donations and find it makes them even more charitably inclined. Many churches or small nonprofits have a standard brokerage account and are charged hundreds of dollars to sell a stock. They are better off receiving a cash donation from a donor-advised fund and you can decide if it should be anonymous or reference your name.

Finding the Right Charities

There are several credible charities in and nearby Montgomery County, but you always need to do your research to ensure your contributions are used wisely. Here are things to keep in mind when you select one:

Verify Nonprofit Status: Charitable organizations that either solicit contributions from Maryland residents or are based in Maryland are required to register with the Office of the Secretary of State (SOS). Once you confirm that the charity is registered in Maryland, you should review a third-party website which reviews charities, such as www.charitynavigator.org.

Administrative Costs: Not all charities use the majority of the money donated to solely assist the cause they purport to help. Some charities use the majority of the funds collected for "administrative costs." In Maryland, charities must provide a financial statement upon request. The SOS provides this information in an online searchable website.

Tax Exempt or Tax Deductible: Tax exempt means the organization does not have to pay taxes. Tax deductible means you can deduct your contribution from your federal taxes.

Advice to Donors

Our closing piece of advice is this: changes to tax laws are no reason to shy away from giving to charities. By understanding the new laws and giving smartly, you will save considerable taxes while enjoying the feeling of helping others and maximizing benefits all around. ^{MM}

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