If You Are Making Charitable Donations in 2018, the Same Way You Did in 2017, You Are Doing it Wrong (Part 1)

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If you are charitably inclined, you might want to think about how you give to charity in 2018, and into the future. As a result of the changes that went into effect as part of The Tax Cuts and Jobs Act (TCJA), you may not receive any tax benefit from making charitable donations. You are now much less likely to itemize your deductions due to the significantly increased standard deduction for income taxes. Below is an alternative way to obtain a tax benefit from your charitable gifts made in 2018 and future years through Stacking Charitable Gifts. Check back next month for Part 2 of this article to see if Qualified Charitable Distributions could work for you, as well.

In 2017, the basic standard deduction was $12,700 for joint filers, $9,350 for head of household filers, and $6,350 for single filers and married taxpayers filing separately. Starting in 2018, the basic standard deduction has increased to $24,000 for joint filers, $18,000 for head of household filers, and $12,000 for single filers and married taxpayers filing separately, all adjusted for inflation.

As you've probably seen in the news, the TCJA now limits the deductibility of state and local taxes to $10,000 for all taxpayers. Most residents of New Jersey will have an easy time hitting the cap. That means that joint filers will have to find $14,000 worth of other deductions (i.e., mortgage interest, medical expenses and charitable donations), in order to itemize deductions, rather than claim the $24,000 itemized deduction. If you don't have a mortgage, or only a small one, and your unreimbursed medical expenses don't exceed 7.5% of your adjusted gross income, then the only other deduction you are likely to claim is the charitable deduction. If that doesn't exceed $14,000 in any year, you are likely to claim the standard deduction instead of itemizing. That means that you are technically not getting any tax benefit from your charitable donation.

Here is my first recommendation to obtaining a tax benefit from your charitable gifts.

Planning Recommendation #1 - Stacking Charitable Gifts: With the increased standard deduction, you may not get a tax benefit from your charitable contributions unless you consider stacking several years' worth of gifts into one year.

Hypothetical: Assume a married couple has $250,000 of taxable income and they typically make charitable gifts of $7,500 per year. When they file their tax return in 2018, they have a state and local tax deduction capped at $10,000, a mortgage interest deduction of $6,000, and a charitable contribution of $7,500, for a total of $23,500. Thus, they choose to use the standard deduction of $24,000. If they do the same thing for the next five years, they will have made charitable gifts of $37,500, and received no tax benefit at all.

Instead, they should make one big gift of $37,500 to a Donor Advised Fund in 2018, from which they would distribute $7,500 each of the next 5 years among charitable organizations. Now they can claim itemized deductions in 2018 in the amount of $53,500 ($10,000 + $6,000 + $37,500), reducing taxable income in 2018 to $196,500 (with enhanced itemized deductions) vs. $226,000 (with the standard deduction). This will reduce their income taxes significantly in 2018, and the couple can still claim the standard deduction in 2019 through 2022, while making $7,500 distributions to their favorite charities from the Donor Advised Fund.

The attorneys at Einhorn Barbarito are happy to discuss this and other available tax planning opportunities that can still be employed to reduce your income tax liabilities.