Philanthropy and Tax Reform:
Is it Advantageous to Accelerate Contributions?

The Tax Cuts and Jobs Act, signed in December 2017, raised questions about how charitable gifts can be deducted. With the standard deduction limits for individuals and married couples nearly doubled under the new law, the financial incentive to donate has largely disappeared for most families.

Of course, most people financially support charitable causes not just for the ability to write it off on their taxes, but also for the opportunity to leave a lasting positive impact on an issue they care about. That said, there are more tax-prudent ways to donate under the new law.

"Bunching" has been a term popularly used to describe households making several years' worth of charitable contributions in one year to reap the tax benefits of being able to itemize deductions and then resort to just using the standard deduction in the following years.

For example, if a family typically made a $15,000 annual donation to a charitable organization, they may elect to combine three years of gifts, or, $45,000, in year one to claim the itemized deduction, while not making payments in years two and three and utilizing the standard deduction instead. One drawback to this bunching strategy is that donors may not have the cash flow to accelerate contributions.

Many have wondered how gifts structured this way affect the underlying charity. Although the size of the gift is ultimately the same, charitable organizations may have rules of their own on how funds are used, leaving them flush with cash in one year and struggling in subsequent years.

For these circumstances, donating to a donor advised fund may be a smart option. With a donor advised fund, the family would make a "bunched" gift to the fund in year one and take an immediate tax deduction. The fund, based on the donor's recommendation, would pay out grants to selected qualified charities in a steady stream in the following years to better ensure a consistent flow of donations for the applicable charities.

Another benefit of using a donor advised fund is that families can donate highly-appreciated stock into the fund for the benefit of the charity. Doing so is beneficial to both the donor and the charity. By donating stock that is held for more than a year, the donor can avoid paying a capital gains tax on the stock appreciation. Meanwhile, the size of the potential gift to the charity is also increased.

For example, if the donor owned long term appreciated stock worth $50,000 with a cost basis of $10,000, the charity would get the full $50,000 stock value and the donor would receive a $50,000 tax benefit. However, if a family had to sell the stock before donating, it would have to pay $8,000 in capital gains tax, assuming a 20% capital gains tax rate, potentially lowering the gift to $42,000.

Households should work with an advisor and the charity in question to determine which method of gifting is most appropriate. For more information, or to discuss specific planning opportunities, contact your Anchin Relationship Partner or Barry Lieberman, a director in Anchin Private Client, at 212.840.3456 or info@anchin.com

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