RECENT TAX CHANGES AND THE POTENTIAL IMPACT ON PHILANTHROPY

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Philanthropy in America continues to grow. *Giving USA 2017* reported a historic $390.1 billion in total charitable giving in America. Looking ahead, the recent tax legislation has generated commentary from the media and the nonprofit community. In this piece, we offer an overview of relevant tax changes and implications, a brief history on how previous tax changes have impacted charitable giving, and insights and recommendations for future fundraising planning.

IN THE MEDIA

- **Total giving could fall by $13 billion, or 4.5%, in 2018.** According to a study by the *IU Lilly Family School of Philanthropy* and the *Independent Sector*, a combination of higher standard deductions and new limits on other deductions, such as for state and local taxes, will lead to a significant decrease in the number of itemizing tax payers, most of whom take advantage of the charitable gift deduction. Currently, about 30% of tax payers itemize and are responsible for over 80% of total giving. The percentage of itemizers is predicted to plummet to as low as 5%, which could lead to a significant decrease in total giving. *(May 2017)*

- **Nonprofits that rely heavily on middle-class donors are concerned.** *The Washington Post* noted that smaller donations from middle-class households often go to social-service and religious organizations, while bigger gifts from wealthier donors have historically gone to higher education and arts and cultural organizations. Overall, charities are worried that philanthropic giving may soon be a pursuit largely left to the wealthy. *(December 2017)*

- **A higher limit on cash contributions may encourage wealthier donors to increase their cash gifts.** Donors that continue to itemize can now contribute up to 60% of their adjusted gross income to charity, up from 50%. *(December 2017)*

- **Only the ultra wealthy will be subject to estate tax under the new law,** which may incentivize high net worth donors to make large gifts during their lifetimes to obtain an income tax charitable deduction. *(December 2017)*

- **Lower tax rates may result in more cash donations to charities.** As the tax rates for the majority of tax brackets are lowered, many people will find themselves paying less in taxes and enjoying more discretionary income that can be spent, saved, or donated to charity. *(December 2017)*

LILLY FAMILY SCHOOL OF PHILANTHROPY
INDIANA UNIVERSITY
IUPUI

INDEPENDENT SECTOR

The Washington Post

Wolters Kluwer

THE CHRONICLE OF PHILANTHROPY

RELEVANT CHANGES UNDER THE NEW TAX LEGISLATION

	Prior Law (2017)	New Law (2018)
Individual Rates Lower tax rates for five out of seven tax brackets	10%, 15%, 25%, 28%, 33%, 35%, 39.6%	10%, 12%, 22%, 24%, 32%, 35%, 37%
Standard Deduction Nearly doubles the standard deduction for individual and joint filers	Single - $6,350 Married - $12,700 Household - $9,350	Single - $12,000 Married - $24,000 Household - $18,000
Charitable Contributions for Cash Gifts Increases limit on cash contributions and retains the 5-year carry-over	50% of AGI	60% of AGI
Estate Tax Exemption Retains the current estate tax rate, but doubles the threshold for triggering an estate, gift, or generation-skipping tax	$5.5M per person $10.98M per married couple	$11.2M per person $22.4M per married couple
Corporate Rate Flat corporate tax rate made permanent by this bill	35% max rate	21% flat rate

HISTORICALLY, MISSION AND IMPACT DRIVE CHARITABLE GIVING

According to the *2016 U.S. Trust Study of High Net Worth Philanthropy*, high net worth donors reported they would **always** give for the following reasons:

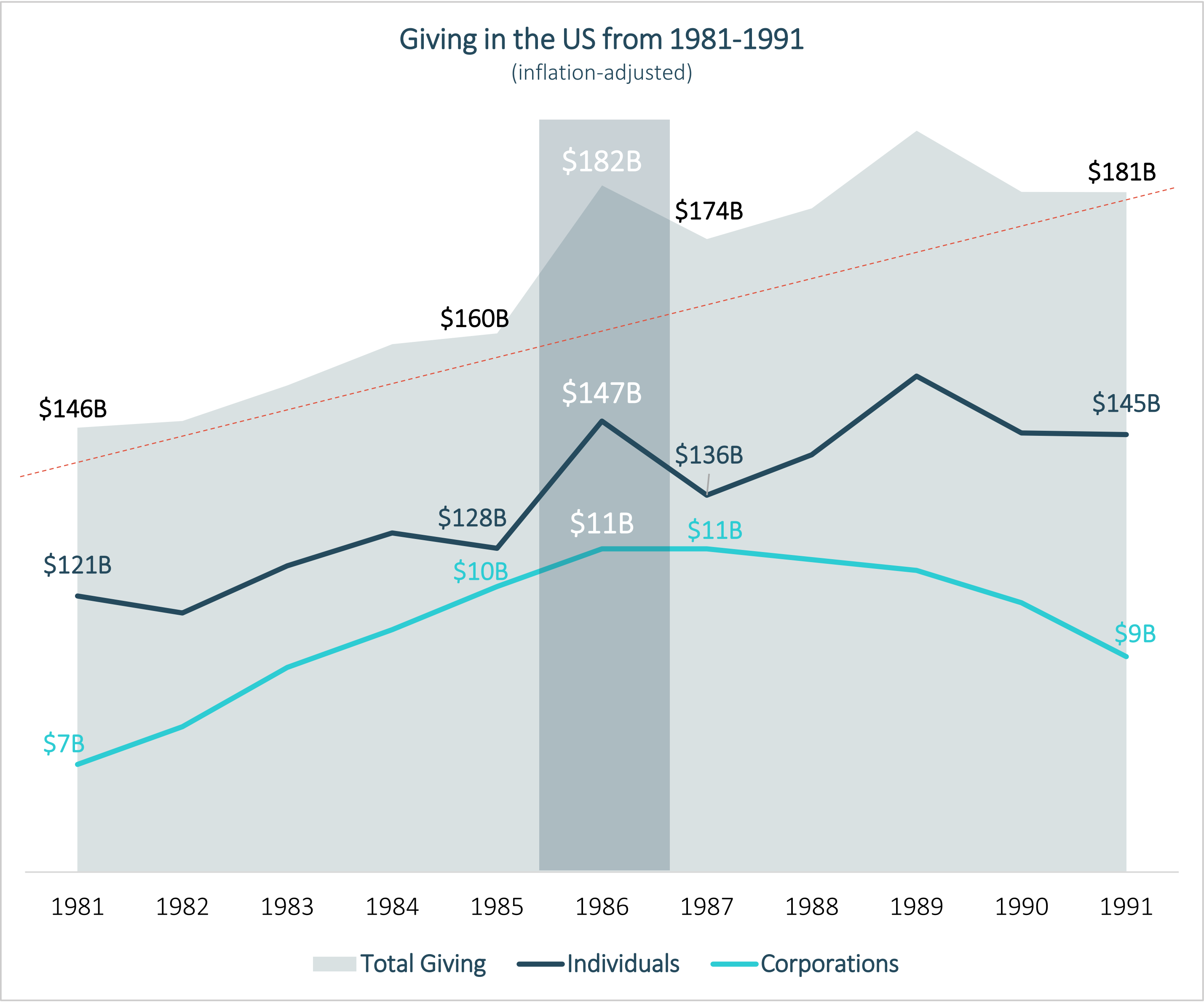
Despite the focus on the tax law and its implications, tax benefits and financial relief consistently rank at the bottom of the list of why people give.

Based on 39,000 conversations CCS has conducted with nonprofit stakeholders and emerging prospects since 2011, tax benefit and financial relief ranks **7th** (at 36%) for why people give. The **impact of the gift** ranks first with 89% of respondents claiming this to be the primary reason why they give.

CCS Research	
Impact of Gift	89%
Ability to Give	78%
Religious/Moral Obligation	68%
Strengthen Local Community	65%
Being Asked	60%
Tax Benefit/Financial Relief	36%

IMPACT OF THE TAX REFORM ACT OF 1986 ON CHARITABLE GIVING

The last major changes to United States tax law were signed under President Reagan in 1986. It was the first across-the-board tax reduction since the 1960s and included provisions that lowered personal and corporate tax rates, decreased the number of tax brackets, and eliminated loopholes for the wealthy and corporations. At the time, nonprofits encouraged donors to give before the new law went into effect.



Total giving increased sharply during 1986 as individuals looked to take advantage of current tax laws before the Tax Reform Act of 1986 changes took effect in 1987. Total giving in 1987 decreased from 1986 but increased overall from 1985-1987, continuing to follow a steady upward trajectory until the United States entered into a recession in 1990-1991 (as illustrated by the red trend line above). Individual giving followed a similar trajectory during this time period, while corporate giving steadily decreased.

Source: *Giving USA 2017*

INSIGHTS AND RECOMMENDATIONS

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Educate development staff, volunteers, and donors on the basic elements of this bill. The Tax Policy Center and Independent Sector offer great online resources that outline the complex elements of the federal Tax System and how they may affect charitable giving in clear and concise language.
See: www.taxpolicycenter.org/briefing-book and www.independentsector.org/resources

Reinforce your mission and update your case for support. Through any changes to the financial climate, your organization's ability to effectively articulate its mission continues to be the most important aspect of your work. This includes honing your mission statements and clearly defining your priorities. A clear and compelling case for support can provide both new and existing donors with an understanding of why your cause matters now and why it requires action from donors of all levels.

Update your major gift strategies to take advantage of the new tax legislation. The new law retains, and in fact enhances, many advantages for high net worth donors. Nonprofits should reevaluate their major gift strategy and dedicate significant resources to stewarding their top donors and volunteers.

Communicate your organization's impact to donors on an even more regular basis, especially over the next 12 months. Our research shows that since the recession of 2008, people tend to choose their top charities with a sense of social entrepreneurism. Continue to show your donors how their gifts are specifically creating positive change. Connect and be present with donors more regularly, focus on the positive, and communicate in terms of opportunities instead of limitations.

Seek out champions for philanthropy. Encouraging your donors to give in a more high profile way at this time will project confidence and certainty which can counteract perceived negative implications of the new tax changes.

Focus on blended giving strategies. While the new law may impact different people in different ways, the charitable deduction was not only retained in the new law, but expanded for some groups of donors, including the wealthy and Baby Boomers. Encourage donors with flexibility in giving options to explore a blended giving strategy that will make the most of their charitable contributions.