NONPROFITS

How will the recent revisions to the tax code affect your organization?

Yakima Valley Community Foundation

Only time will tell. Regardless, there are things you should know.

Donors have questions about the recent revisions to the tax code. For many, that includes questions about how it might affect their charitable giving. You know donors give because they care—about their neighbors, your mission and the place we share (not because they are motivated by a tax incentive). All the more reason to help them be well informed about their options so that they can maximize their philanthropy and minimize their tax bill.

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 percent- age of donors who itemize. Other tax law changes may actually be problem- atic for many donors and for the nonprofits doing the work that matters to them. Happily, the Yakima Valley Community Foundation can help.

All sources of income
— Allowable deductions & expenses

= AGI (Adjusted Gross Income)

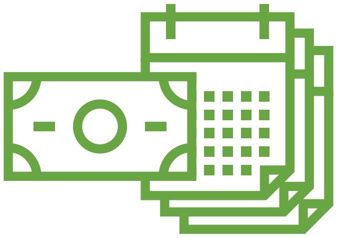
"Bunching" and the Standard Deduction

The standard deduction—mortgage interest, state and local taxes, charitable giving and other 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, cash management and services.

What's a DAF?

Donor Advised Funds (DAFs) are separate funds established at community foundations and other public charities. You receive the tax benefits for which you are eligible at the time you make your gift. Over time, you can make recommendations to the community foundation (or other public charity) about where you would like grants from the DAF to go.

"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 exceeds the standard deduction. The DAF allows donors to maintain their typical annual giving patterns while smoothing the contribution income to organizations like yours.



What are the advantages of a Community Foundation DAF?

- Local knowledge and relationships
- A wealth of possibilities—every aspect of community—arts, economy, environment, wellness, food & agriculture, education, neighborliness and equity, throughout Yakima County
- Ability to leverage the contributions of many donors and other partners

Our nominal fees make it possible for the Yakima Valley Community Foundation to work on pressing community challenges, develop new ways to put local resources to work, and strengthen local nonprofit organizations.
If you want more legalese and parentheses, you can refer to Internal Revenue Code Section 170(c) for more DAF information.

Reducing Taxable Income

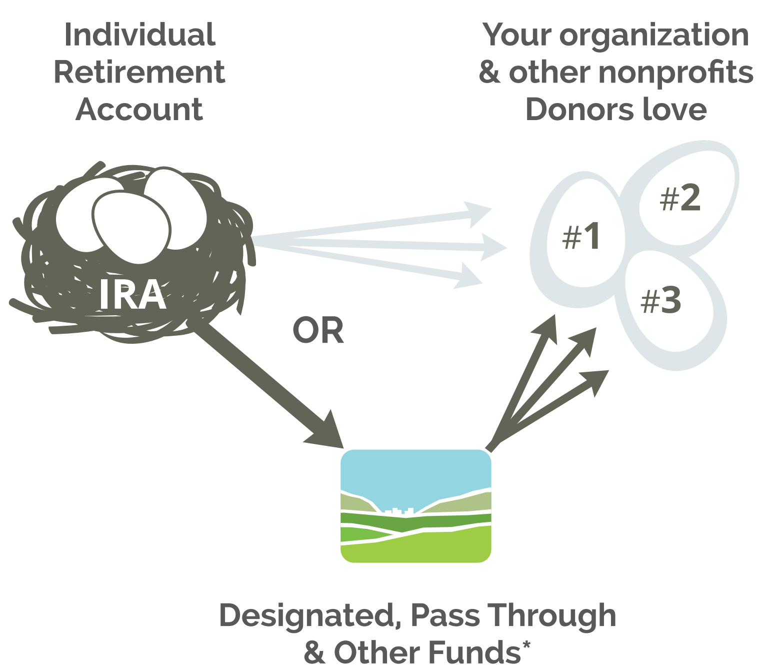
Donors **70½** or older with an **Individual Retirement Account (IRA)**, must take a Required **Minimum Distribution (RMD)** from their IRA. The **Qualified Charitable Distribution (QCD)**, a distribution made directly from a donor's IRA to a charitable organization, can help reduce their taxable income. QCDs are not included in the donor's taxable income which may reduce their taxes, depending on their circumstances.

Donating a Required Minimum Distribution Direct from an IRA to a Nonprofit Organization

Participants need to be **70½** or older

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

Maximum $100,000 QCD per person



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

What about Social Security benefits?

The taxable portion of Social Security (SS) benefits may be reduced for donors eligible for a QCD from their IRA. Lower income tax payers can reduce the amount of their SS benefits that are taxable. For example, if married taxpayers have Modified AGI (MAGI) lower than $32,000 ($25,000 for single taxpayers), none of their SS benefits are taxable. As the MAGI figure climbs for married couples from $32,000 to $44,000 ($25,000-$34,000 for single taxpayers, 50% of their SS benefits are taxable. Once MAGI exceeds $44,000 for married taxpayers ($34,000 for single taxpayers), 85% of their SS benefits are taxable. So, lowering your donor's MAGI through a QCD has a compounding effect because: 1) they avoid taxable income on the QCD amount, and 2) they potentially reduce the tax on their SS benefit amount.

Examples of SS benefits taxation QCD

TAXPAYER STATUS	SS BENEFITS	MAGI*	QCD AMOUNT	TAX	TAX SAVED
Single	24,000	35,000	0 / 5,000	1,513 / 673	840
Married	36,000	45,000	0 / 5,000	725 / 0	725
Single	24,000	45,000	0 / 5,000	3,835 / 2,725	1,110
Married	36,000	55,000	0 / 5,000	2,709 / 1,650	1,059

** MAGI includes adjusted gross income + nontaxable interest + 50% of SS benefits*

- For donors in higher income brackets, keeping their AGI as low as possible has additional benefits. It may increase the amount of their medical expenses that are deductible because medical expenses are only deductible if they exceed 7.5% of AGI.
- Lowering AGI also reduces the potential 3.8% net investment income tax (NIIT) on investment earnings for high income taxpayers as this tax is also based on AGI.
- Lowering AGI of high income taxpayers may also help them avoid higher Medicare Part B premiums, as these monthly premiums are now tied to AGI figure on an annual basis.

While DAFs are prohibited from accepting QCDs, the Yakima Valley Community Foundation has other options for donors. We offer designated, (including endowment funds for more than 20 nonprofits like yours), pass-through, field- of-interest and other funds that make it possible for donors to specify their wishes prior to the Yakima Valley Community Foundation receiving the gift.

How can a QCD affect the way my SS benefits are taxed?

Single with MAGI	Taxability	Married with MAGI
< $25,000	0%	< $32,000
$25,000— $34,000	50% of SS Income x Marginal Tax Rate	$32,000—$44,000
> $34,000	85% of SS Income x Marginal Tax Rate	> $44,000

The LOWER your MAGI, the LOWER your Taxable SS Income

Planned Giving

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. (The Washington estate tax exemption for 2018 is $2,193,000.)

How can the Community Foundation assist donors?

We can be a resource whether donors have an interest in giving to your organization or multiple organizations. We bring our philanthropic expertise and knowledge of local issues and assets to help donors achieve their giving goals, tailoring strategies to each donor.

What happens in 2026?

No one knows what will happen when the temporary provisions of the current tax law expire. Of the 23 tax breaks scheduled to expire on December 31, 2025, those that may have the most significant potential impact on charitable giving are:

- Increased Percentage Limitation on Cash Contributions
- Increased Standard Deduction
- Lower Individual Income Tax Rates
- Increased Estate Tax Exemption.

Any or all of the above could be extended (i.e., stay the same) or be modified so that they are more or less favorable from a tax perspective. The consequences of the 2017 tax code revisions, the status of federal finances, the nation's overall economic health and politics are among the many factors that will drive future tax decisions. That is a lot of variables and a lot of uncertainty.

What can you do?

Share this information with your donors.

Adapt this piece for your own organization. (What?!!! You can cut and paste this material, add your logo and share it with donors? Yes, our goal is to grow local philanthropy and that means more donors giving directly to your mission. That's what we mean when we say we truly want to be your partner.)

Start a conversation with your board about your organization's financial health and planning. Consider questions such as:

- How financially well positioned are we —short and long term—given the potential consequences of the recent tax code modifications?
- Could we have a cash flow problem?
- Are we prepared if a donor makes a major gift—do we have the necessary policies and systems in place?
- Can we weather an unexpected major expense (e.g., a computer failing)?
- What steps could/should we take to improve our financial position?
- Are we doing enough to promote planned giving?
- What do we want donors to know? And, what do we want donors to do?
- Is now the time to consider establishing an endowment?
- What else should we be thinking about?

Yakima Valley
Community Foundation

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