PROFESSIONAL ADVISORS

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

Yakima Valley Community Foundation

Your clients 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 that your clients give because they care, 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 percentage of donors who itemize. Other tax law changes may actually be problematic 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 charitable giving. A change in giving patterns could have a profound effect on nonprofit budgets, cash management and services. That could mean added challenges for the communities they serve. That matters to your clients.

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 your clients to take advantage of the charitable deduction when their bunched gift combined with other eligible expenses exceeds the standard deduction. The **DAF** allows your clients to maintain their typical annual giving patterns while smoothing nonprofit gift income.

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

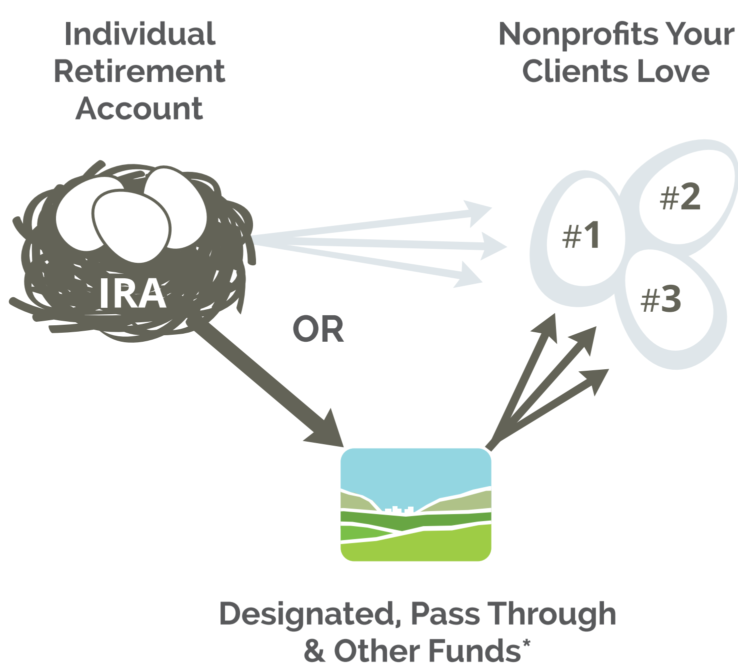
If you are **70½** or older and have an **Individual Retirement Accounts (IRAs)**, you must take a **Required Minimum Distribution (RMD)** from your IRA. The **Qualified Charitable Distribution (QCD)**, distributions made directly from the IRA to a charitable organization, can help reduce your taxable income. **QCDs** are not included in your taxable income which may reduce your taxes, depending on your 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 your Social Security (SS) benefits may be reduced if you are eligible for a QCD from your IRA. For lower income taxpayers, you can reduce the amount of your benefits that are taxable. For example, if married taxpayers have Modified AGI (MAGI), lower than $32,000 ($25,000 for single taxpayers), then none of your 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 social security benefits are taxable. So, lowering your MAGI through a QCD gift has a compounding effect because: 1) you avoid taxable income on the QCD amount, and 2) you potentially reduce the tax on your SS benefit amount.

The impact of a QCD on Your SS Benefits Taxation

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 Donor Advised Funds are prohibited from accepting QCDs, the Yakima Valley Community Foundation has other options. We offer designated, pass-through, field-of-interest and other funds that make it possible for your clients 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

What funds already exist at the Community Foundation?

Donor Advised Funds

Designated Funds

Field of Interest Funds

Policy Area Funds

Scholarship Funds

Organizational Funds for Endowed Partners

What if your clients don't see a fund that fits their interests and goals?

Get in touch with us. The Yakima Valley Community Foundation can help you determine the best solution based on what matters to you, whether that involves the Yakima Valley Community Foundation or not.

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 you and your clients?

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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 policy decisions. That is a lot of variables and a lot of uncertainty for your clients to navigate.

What can you do?

Share this information with your clients. You can help them strategize the most prudent approach for them fueled by your expertise. They will thank you. Donors share their disappointment and frustration when they learn about options like the QCD from the Community Foundation rather than from their professional advisors. Philanthropy should feel good. We want to help you be a part of that good feeling.

Yakima Valley
Community Foundation

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