Two Birds with One Stone

Saving as You're Helping

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THE TAX CUTS AND JOBS ACT OF 2017 (TCJA) has impacted Americans favorably, largely because most individuals are paying less tax on their earnings. Many of you would probably agree that in the short-term it is preferable, especially to a business owner or self-employed individual, to pay less to the government on each dollar received.

Every piece of legislation has its pros and cons, and you likely have some opinion, good or bad, of the changes associated with the TCJA. CPAs I've spoken with acknowledge that the majority of filers have seen a marginal decrease in terms of the amount of taxes they are paying. However they also admit that others have been negatively impacted, specifically by the State and Local Tax (SALT) deduction ceiling of $10,000. Regardless of our opinions on the politics and economics behind the TCJA changes, they are now reality and we need to adjust our thinking and planning strategies accordingly. This includes shifting our conversations to focus more on "reducing" taxable income as opposed to "deducting" income.

One area negatively impacted by the new law is the charitable and non-profit community, or 501(c)(3) entities, which rely heavily on donations. While a great number of folks will continue their tradition of giving, the amount of charitably inclined taxpayers has declined significantly since 2017. This is largely attributable to the increased Federal standard deduction of $12,200 (if filing single) or $24,400 (married filing jointly), which has resulted in fewer people itemizing deductions on the form 1040 and has coincided with less charitable giving across the board.

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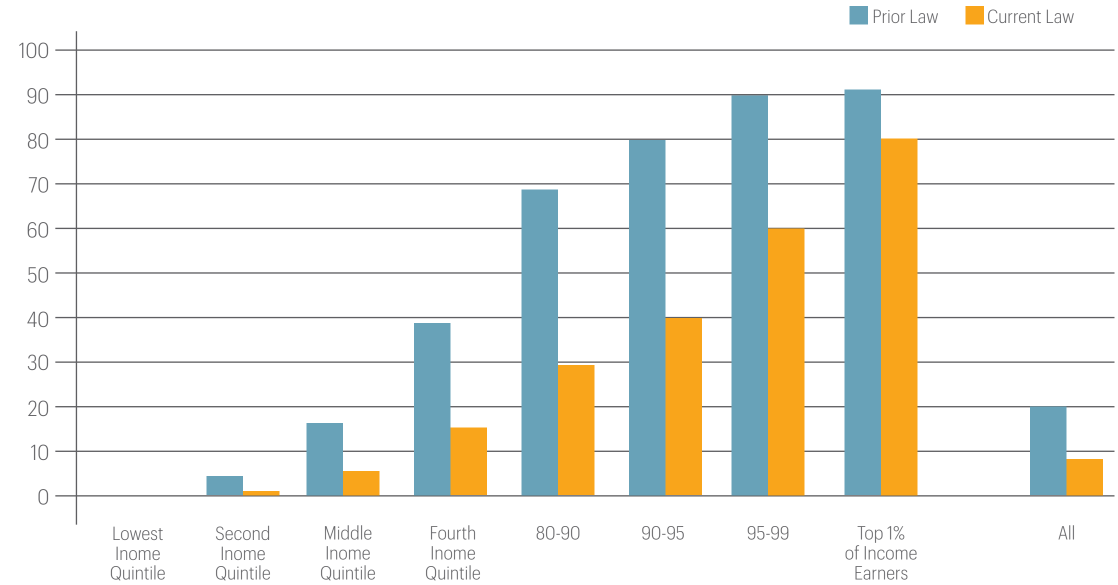
Change in the Share of Taxpayers Taking Itemized Deductions of Charitable Giving Under the TCJA

By expanded cash income percentile, under prior law and current law



Source: Urban-Brroings Tax Policy Center Microsimulation Model (Version 0217-1).
Notes: Graph depicts the average marginal tax subsidy for a $100 donation.

Hope for charitable organizations however is not lost. There is one demographic group, which coincidentally happens to be is the fastest growing segment of the population, that still retains the ability to keep some taxable income off their returns by contributing to a charity of choice. Individuals over 70½ who have begun Required Minimum Distributions from their IRAs can take their yearly distribution as what is known as a Qualified Charitable Distribution (QCD). QCDs are fully deductible up to $100,000 if done correctly. In fact, they come with several benefits that can range from helping you stay in a lower tax bracket, to maintaining eligibility for certain credits and deductions, to ensuring you don't incur unexpected increased Medicare Part B premiums through what is known as the Income Related Monthly Adjustment Amount or IRMAA.

There are a few rules to consider before you choose to start giving through a QCD as non-compliance could result in your planned deduction being disallowed by the IRS.

- The QCD must be a direct transfer from the IRA custodian made payable to the charity. Do not make the distribution payable to you, or you will lose the opportunity to deduct the income on your return.
- Check to ensure the charity you select is eligible to receive your contribution. Certain charities do not qualify, including Donor Advised Funds and Private Foundations.
- The maximum contribution per individual per year that qualifies as deductible is $100,000. For a married couple filing jointly that would allow for $200,000 to be deducted. Itemization on the return is not required.
- Funds must be withdrawn by December 31 of each calendar year.

If you have assets in an IRA or other tax-deferred retirement account, are over the age of 70½, and have charitable intentions, a QCD could be a good way for you to reduce your taxes as you look for ways to make a difference with your annual giving. Be sure to talk to your advisory team, including a knowledgeable wealth advisor and tax preparer, about the pros and cons, as well as the mechanics of the process required to qualify for a QCD prior to making any withdrawals from your account. This strategy can help you pay less tax and help an organization you feel is deserving of your dollars!

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Craig Slaubaugh is a financial advisor in the Pittsburgh, Pennsylvania, office of HBKS® Wealth Advisors. Craig joined HBKS® in 2018 after working as a relationship manager with Key Investment Services and PNC Investments. Prior to that he spent several years splitting time as an advisor with Lincoln Investment, dealing primarily with defined benefit plans and teaching economics and global affairs courses. Craig specializes in comprehensive financial planning and investment advisory services.

Craig earned both his bachelor's and master's degrees from Gannon University.