

The Tax Cuts and Jobs Act - Impacting Philanthropy

Presented By
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Non-Itemizers v. Itemizers



Non-Itemizers



The Change

- Standard Deduction Doubled
 - \$24,000 for Married filing Jointly
 - \$18,000 for Head of Household
 - \$12,000 for others



The Change

- Itemized Deductions Limited
 - State/Local Taxes--\$10,000 Maximum
 - Income or Sales Taxes (Not Both)
 - Real Estate Taxes



The Change

- Itemized Deductions Limited
 - Mortgage Interest -- \$750,000 Loan Maximum
 - \$1 Million for Mortgages Prior to 2018
 - Home Equity Loan Interest No Longer Deductible



The Change

- 30% of Taxpayers Previously Itemized Deductions
- As few as 10% of Taxpayers Now Expected to Itemize



The Change

- Pease Amendment Repealed
 - Under Prior Law High Income Taxpayers Had to Reduce Their Total Itemized Deductions
 - Amount of Reduction was 3% of Income Over a Threshold Amount
 - Could Reduce Total Deductions By Up to 80%



The Conversations and Strategies

- Bunch Charitable Contributions
 - Instead of Giving \$5,000 Per Year, Give \$10,000 Every Other Year
 - Give to Same Charity(ies)
 - "Reload" Donor Advised Funds (DAFs)



The Conversations and Strategies

- Give Appreciated Marketable Securities
 - Avoid Federal Capital Gain Tax
 - Avoid State Income Tax
 - Avoid Medicare Tax on Net Investment Income



The Conversations

- **Charitable IRA Rollover**
 - Make Qualified Charitable Distributions (QCDs) Directly to Charity
 - Limitations:
 - Must be 70 ½ or Older
 - Limited to \$100,000 Per Year
 - Can Only Be Made to a Public Charity—No DAFs, CRTs, or CGAs



Itemizers



Charitable Planning Opportunities

Maximize Charitable Giving, Minimize Taxes

- Maximize annual charitable income tax deductions
- Avoid/reduce tax upon sale of appreciated assets
- Avoid gift and estate taxes
- Maximize tax benefits beyond maximum annual deduction thresholds



Charitable Planning Opportunities

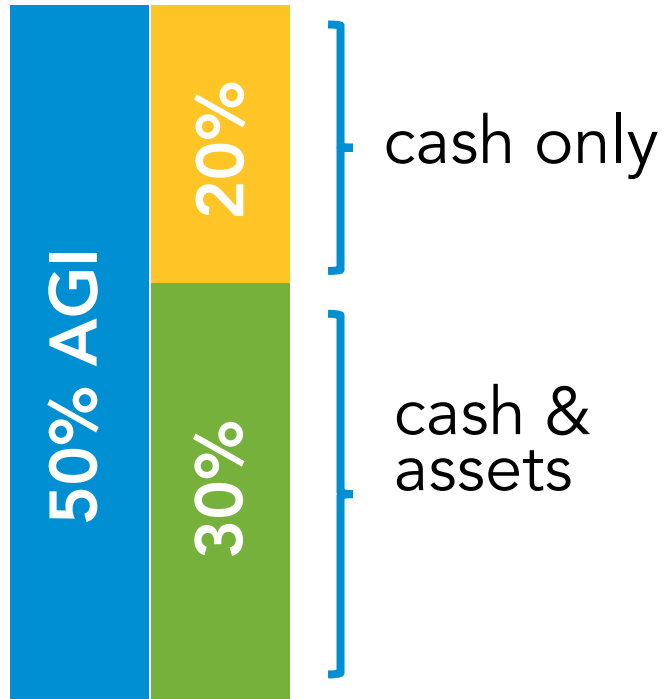
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Deduction Threshold Limits

If you give cash and assets -
50% of AGI
up to **30%** can be assets



**AND
NOW**

If you give all cash -
60% of AGI



The Change

- Increased Charitable Deduction Limits
 - Cash gifts to public charities deductible up from 50% to 60% of AGI
 - Non-cash gifts remain the same as before at 30% of AGI

The Conversations

- All cash giving vs. combined cash and non-cash giving
- NCF Charitable Trust (NCT) benefits increased
 - 60% AGI deduction typically reduces tax on UBIT by 60%



Maximizing Annual Charitable Deductions

The Objective:

- Minimize income tax liability on an annual basis and over the lifetime of the taxpayer
- Take full advantage of the charitable income tax deduction benefits provided by the tax laws



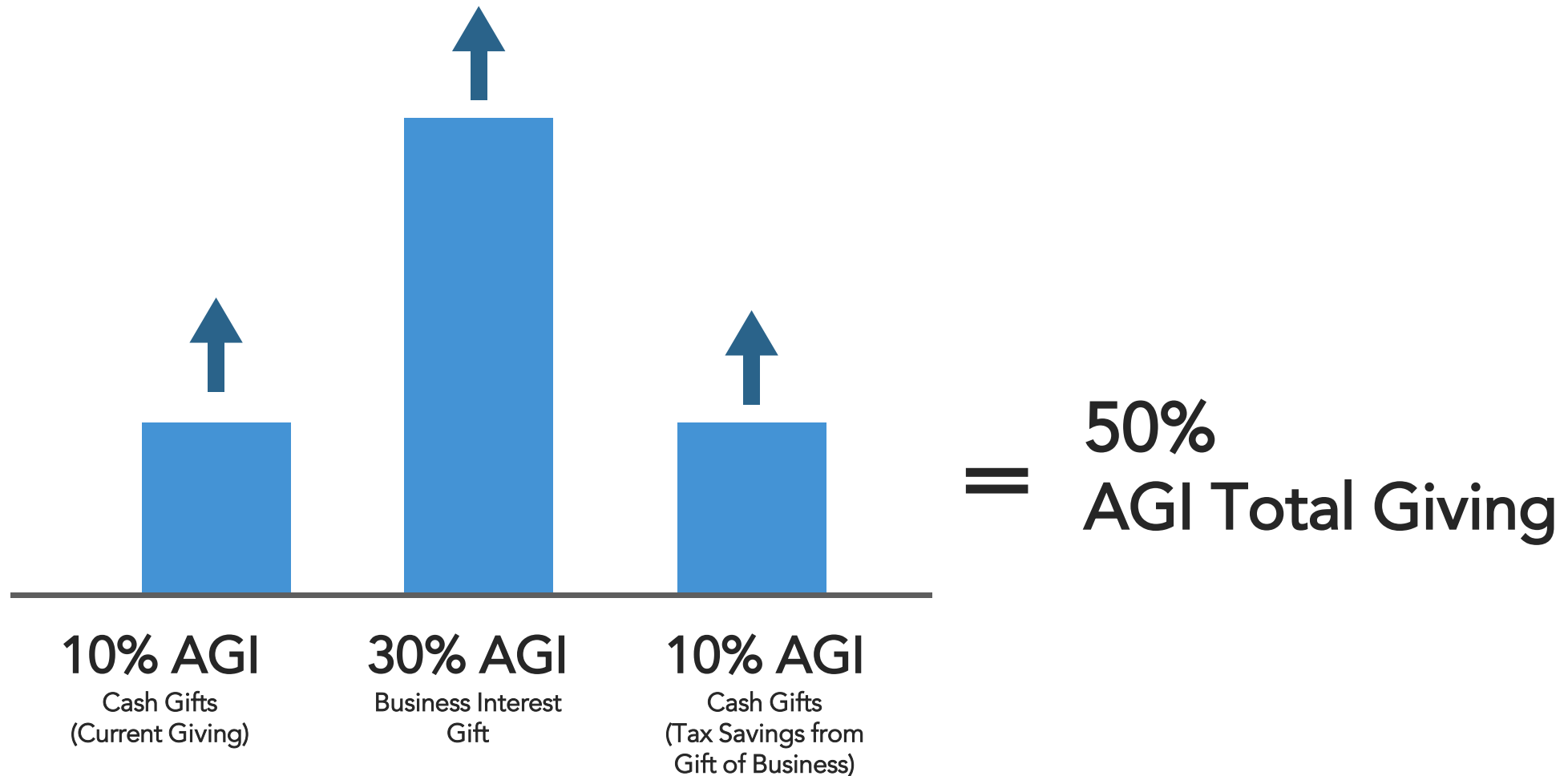
Maximizing Annual Charitable Deductions

Appropriate Assets for Consideration:

- Business Interests
 - S Corporations
 - C Corporations
 - Limited Liability Companies
 - Partnerships
- Real Estate
- Marketable Securities
- Cash



Maximizing Charitable Deductions



Charitable Planning Opportunities

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- Maximize annual charitable income tax deductions
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Avoid/Reduce Tax Upon Sale of Appreciated Assets

- Secure Charitable Deduction and Avoid/Reduce Capital Gain Tax
- Assets to Consider:
 - Marketable Securities
 - Real Estate
 - Privately-Owned Business
- Consider Split-Interest Arrangements
 - Charitable Remainder Trusts
 - Charitable Gift Annuities



The Change

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Taxes? But we are a non-profit, we don't pay taxes...

UNRELATED BUSINESS INCOME TAX (UBIT)

Even though an organization is recognized as tax exempt, it still may be liable for tax on its unrelated **BUSINESS INCOME**, generally income from business that is **UNRELATED** to its charitable purpose.

What is the big deal...

NCF Paid
\$17.4 million

of UBIT in 2016



All Unrelated Business Income Can Be Taxable...

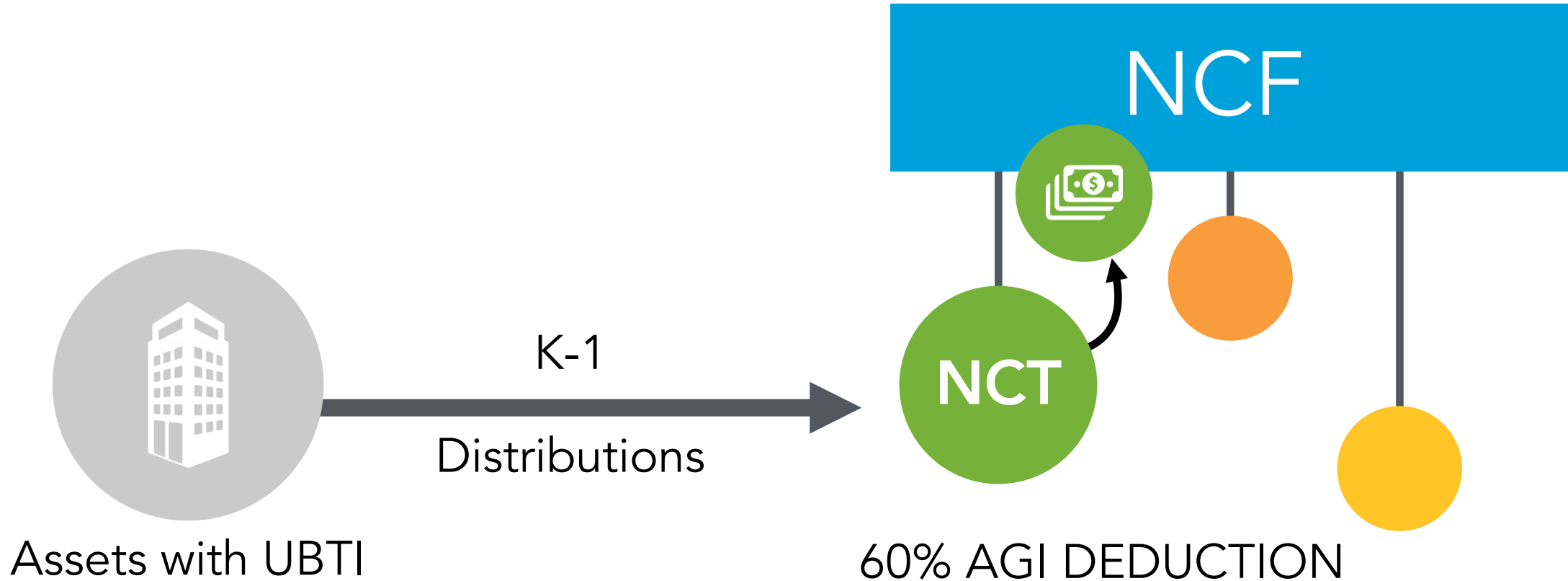


Passive Income (not usually taxable except for S-CORP and UDFI)

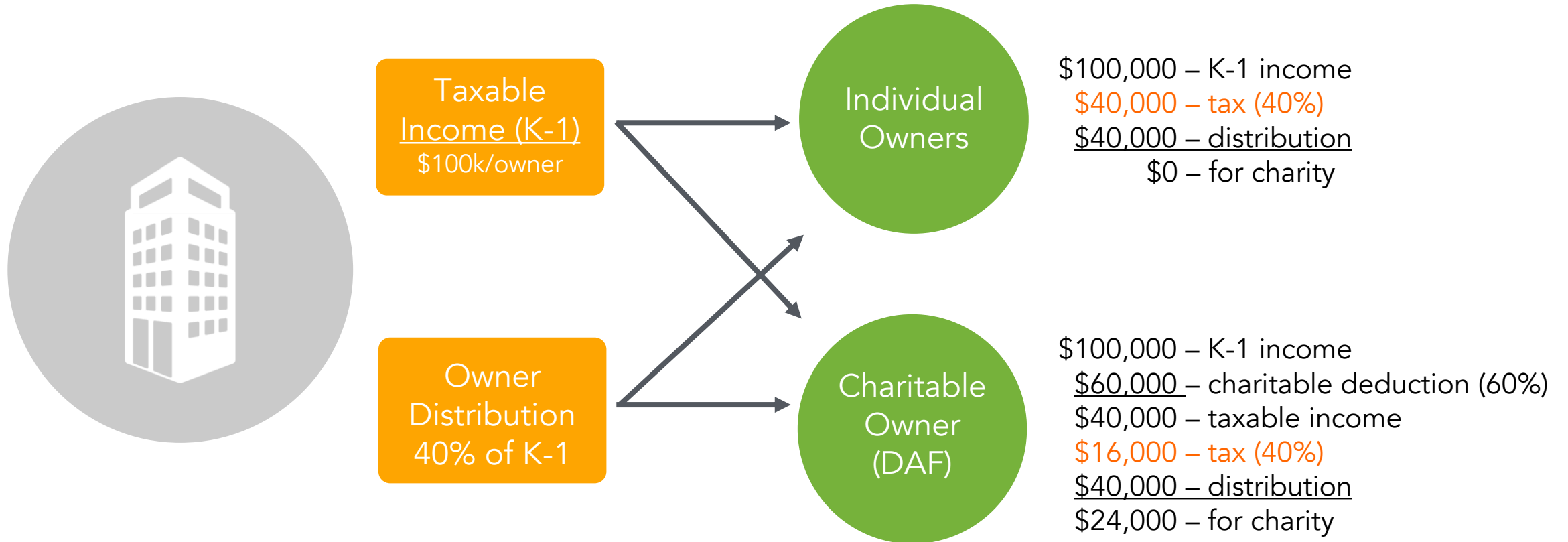
Rent on Real Estate • Capital Gains • Royalties • Dividends • Interest



NCF's Unique Structure



Pass Through Taxation & Owner Distributions



60% tax reduction captured for giving!



WHAT'S NEW

Tax Cuts and Jobs Act: Effective Tax Rate on Ordinary Income UBTI

What Does This Mean For NCT?

<i>ORDINARY INCOME</i>	<i>2017 and before</i>	<i>2018 and going forward (TCJA)</i>
Tax Rate	39.6%	37%
Charitable Deduction	50%	60%
NCT "ETR"	19.8%	14.8%

C-Corp Tax Rate	35%	21%
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- NCT's tax rate is DOWN
- NCT's charitable deduction is UP
(Federal Only - No Changes on the State Level)

"ETR" = Effective Tax Rate



WHAT'S NEW

Tax Cuts and Jobs Act: Effective Tax Rate on Capital Gain UBTI

What Does This Mean For NCT?

<i>CAPITAL GAINS</i>	2017 and before	2018 and going forward (TCJA)
Tax Rate	20%	20%
Charitable Deduction	50%	60%
NCT "ETR"	10%	8%

- NCT's tax rate is DOWN
- NCT's charitable deduction is UP

(Federal Only - No Changes on the State Level)

"ETR" = Effective Tax Rate



Charitable Planning Opportunities

Maximize Charitable Giving, Minimize Taxes

- Maximize annual charitable income tax deductions
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- **Avoid gift and estate taxes**
- Maximize tax benefits beyond maximum annual deduction thresholds



The Change

- Estate and Gift Tax Exemption Increased
 - \$11.18 million per person
 - \$22.36 million per couple

The Conversations

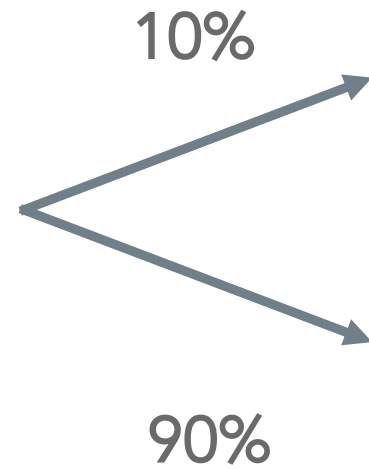
- Accelerate estate planning transfers
- How much for heirs?
 - maximum tax free?
 - what's healthy?



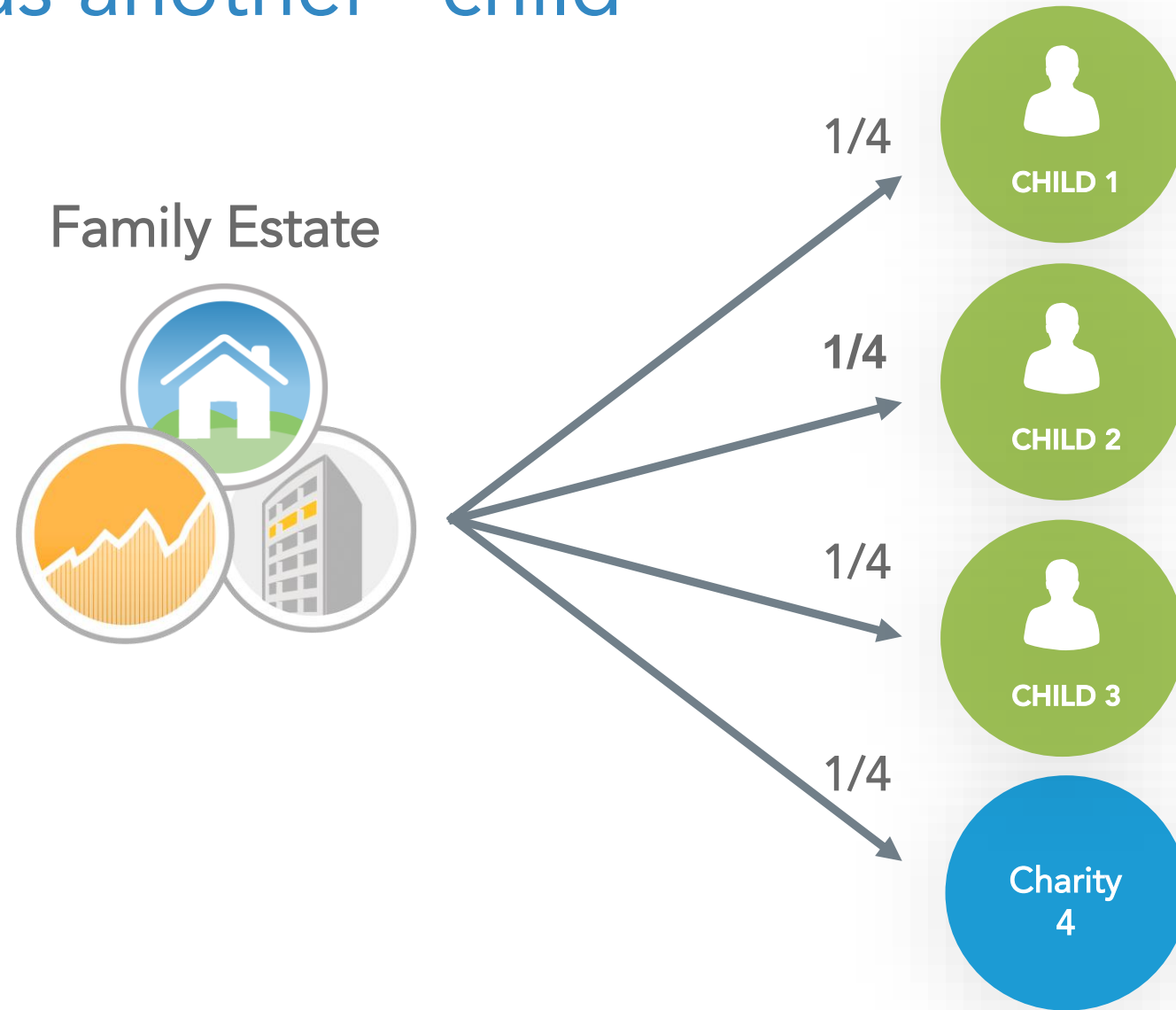


Charitable Estate Planning Conversations

Percentage of Estate



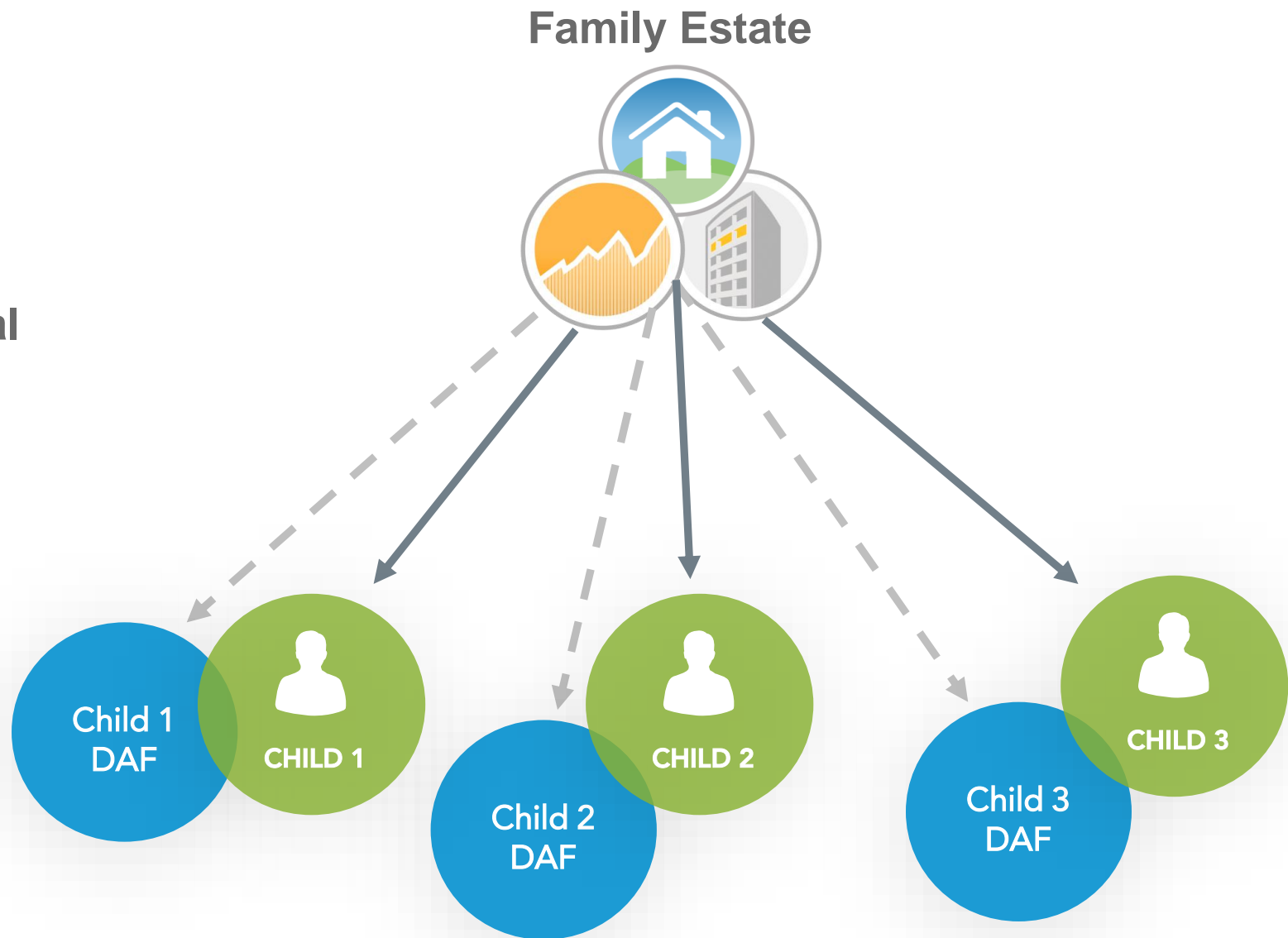
Charity as another "child"



Inheritance of giving

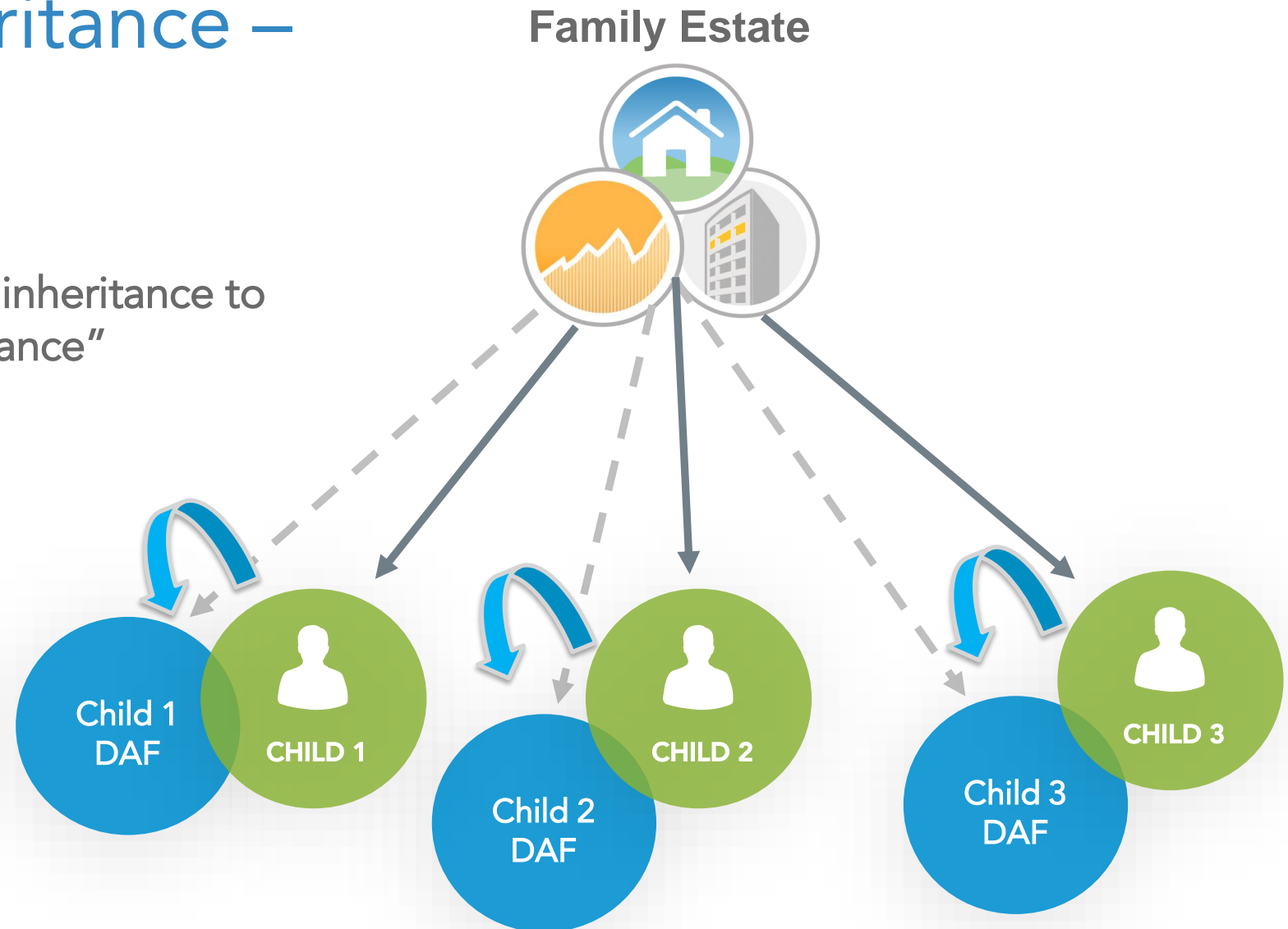
___% - Child's personal inheritance

___% - Child's giving "inheritance"



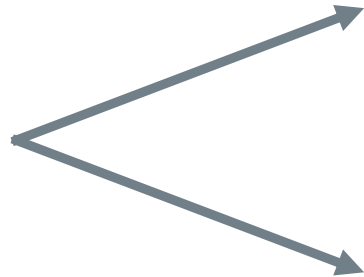
Giving inheritance – disclaimer

Child may disclaim any portion of his/her inheritance to his/her giving “inheritance”



Taxable estate to charity

Family Estate



maximum
tax-free estate
(\$11.18M/person; \$22.36M/couple)



excess
estate
assets

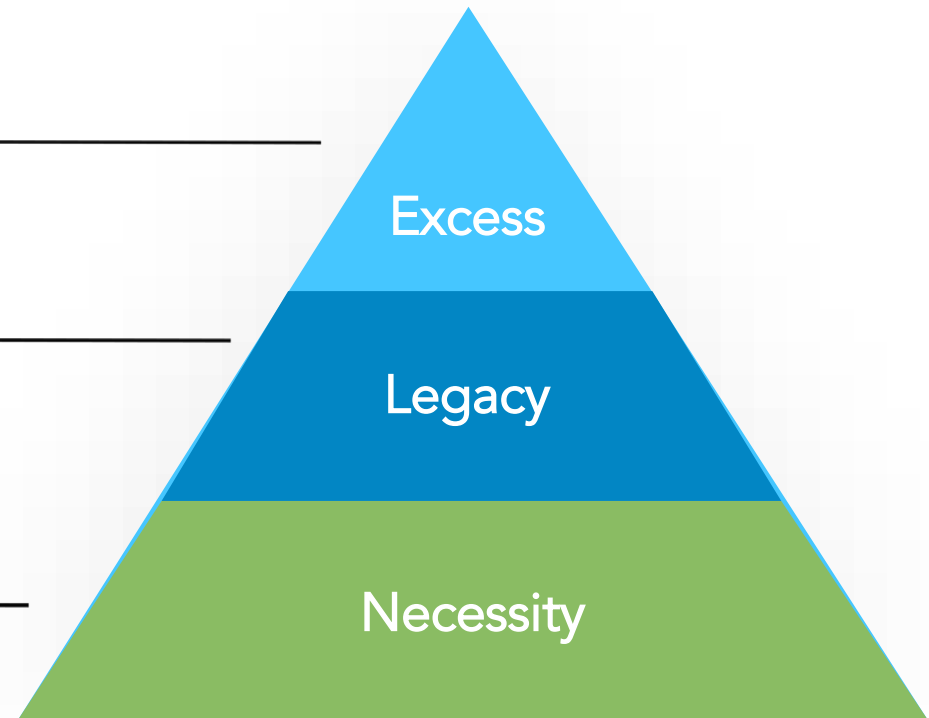


Three Questions to Unlock Giving Potential

What will you do with the rest? _____

How much should we give to the kids? _____

How much do I need for myself and my spouse? What's my finish line? _____



Identify specific inheritance objectives

- Home (down payment, purchase)
- Education (children, grandchildren)
- Supplement Income (stay-at-home spouse, pastor or ministry worker, teacher, etc.)
- Family Vacations (home, annual vacations)
- Start a Business



Quantify inheritance objectives:

Home Purchase	\$ 500,000
Education (3 Grandchildren)	
• K-12	\$ 450,000
• College	\$ 450,000
Supplemental Income	\$ 1,000,000
Family Vacations	\$ 250,000
Funds to Start a Business	<u>\$ 500,000</u>
Total Inheritance	<u>\$ 3,150,000</u>



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Tax Cuts and Jobs Act: Recap & Final Miscellaneous Items

- Standard Deduction Doubled
 - \$24,000 for Married filing Jointly
 - \$18,000 for Head of Household
 - \$12,000 for others
 - Estate and Gift Tax Exemption Increased
 - \$11.2 million per person
 - Increased Charitable Deduction Limits
 - Cash gifts to public charities deductible up from 50% to 60% of AGI
 - Non-cash gifts remain the same as before at 30% of AGI
 - Top Income Tax Rates Decreased
 - Individuals — 37%
 - Corporations — 21%
 - “Qualified Business Income” — 20%
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- Charitable IRA Rollovers retained
 - Net Investment Income Tax (NIIT) retained
 - Pease Limitation Suspended





Q & A