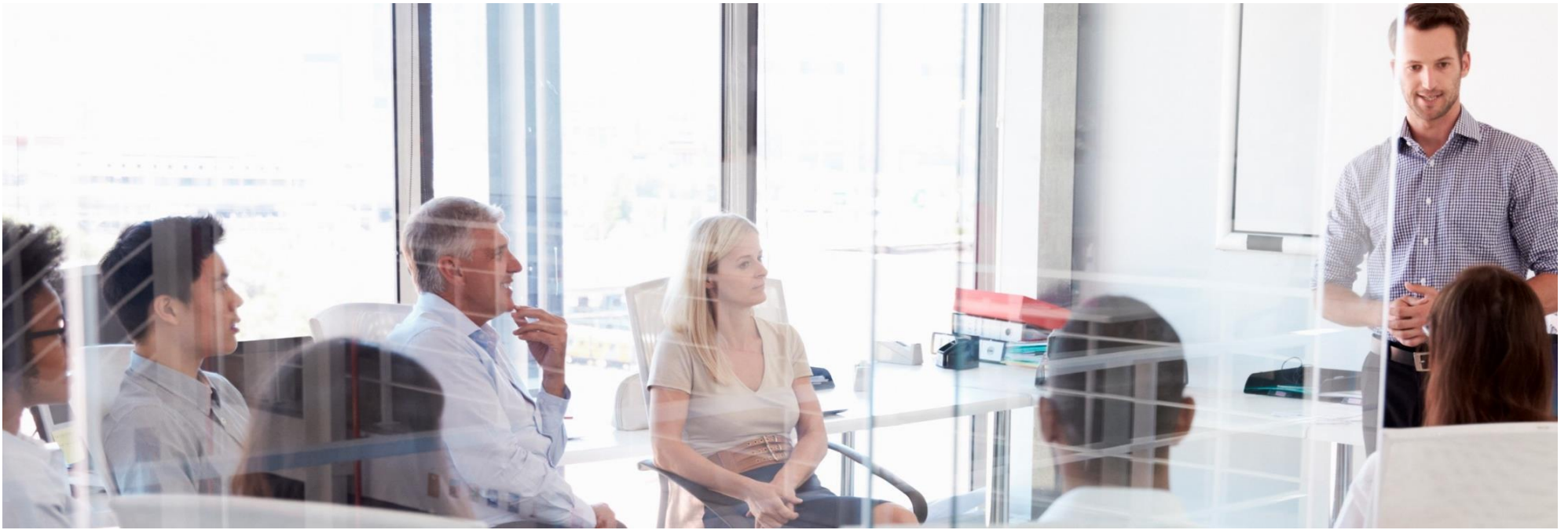


## ART MUSEUM DEVELOPMENT ASSOCIATION TAX REFORM AND PHILANTHROPY



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**EKS&H**

# OVERVIEW

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- ▶ Did the December 2017 tax law changes have an impact on philanthropy including current day and planned gifts?
- ▶ How are tax advisors guiding their clients and their clients' families?
- ▶ How are Donor Advised Funds impacted?
- ▶ How to speak to donors to maximize their gifts and impact

## H.R. 1 | The tax cuts and jobs act

*Did the December 2017 tax law changes have an impact on philanthropy including current day and planned gifts?*

# H.R. 1 | THE TAX CUTS AND JOBS ACT | AN OVERVIEW

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- ▶ For tax years 2018 through 2025
  - The highest marginal rate is reduced from 39% to 37%.
  - The standard deduction is increased to \$24,000 (MFJ), \$18,000 (HOH), and \$12,000 for single filers.
  - Personal exemptions are repealed.
- ▶ Itemized Deductions
  - Created a cap of \$10,000 on the deduction of state and local income taxes
  - Suspended ability to deduct so called “2%” itemized deductions such as tax preparation and investment advisory fees.
  - Specific to charitable contributions:
    - Increased the income-based percentage limit for charitable contributions of cash to public charities to 60%.
    - Denial of a charitable contribution for payments made for college athletic event seating rights.
- ▶ Estate and Gift Taxes
  - Doubles the estate and gift tax exemption from \$5 million to \$10 million (indexed for inflation) per person.

## H.R. 1 | THE TAX CUTS AND JOBS ACT (CONT.)

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- ▶ According to the Tax Policy Center
  - 11% of households are projected to itemize deductions
  - Down from 26% under prior law

## H.R. 1 | THE TAX CUTS AND JOBS ACT (CONT.)

<b>Example – Married Filing Joint</b>	<b>2017</b>	<b>2018</b>
Total AGI	<u>500,000</u>	<u>500,000</u>
Itemized Deductions		
State & Local Taxes	20,000	10,000
Mortgage Interest	5,000	5,000
Charitable Contributions	3,000	3,000
Investment Advisory Fees	10,000	-0-
Total Itemized Deductions	<b><u>38,000</u></b>	<u>18,000</u>
Standard Deduction	<u>12,700</u>	<b><u>24,000</u></b>
Taxable Income	<u>462,000</u>	<u>476,000</u>

## GUIDING OUR PHILANTHROPIC CLIENTS

*How are tax advisors guiding their clients and their clients' families?*

## GUIDING OUR PHILANTHROPIC CLIENTS

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- ▶ A bit of “business as usual”
  - Relationships, trust, and proactive dialogues.
- ▶ Timing is critical (from a tax benefit perspective)
  - Business transactions
  - Retirement
  - Family wealth planning
- ▶ Using assets other than cash to fund contributions
  - Marketable securities
  - Privately held business interests (partnerships, etc.)
  - Artwork
  - Intellectual property (comes with a catch)
  - Real estate
- ▶ Involving the entire team
  - Tax modeling
  - Legal documentation
  - Investment advisor
  - Charitable representative



## GUIDING OUR PHILANTHROPIC CLIENTS (CONT.)

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### ▶ Qualified Charitable Distributions

- Allows for donors age 70 ½ and older to make a direct contribution to charity from their IRA.
- Satisfies the donors Required Minimum Distribution (RMD) (a maximum of \$100,000)
- Will not increase Adjusted Gross Income (AGI) benefiting those who would otherwise be impacted by AGI sensitive matters (i.e. NIIT and tax brackets)

### ▶ Other trends

- Involving the next generation through education and family meetings.
- “Stacking”, “Bunching”, or “Lumping” charitable contributions from year to year.
  - Increased use of Donor Advised Funds.
- State income tax credits for contributions to specific organizations.

### ▶ Planned gifts should be reviewed

- Formula driven gifts may result in a lesser than desired bequest

Donor advised funds

*How are Donor Advised Funds impacted?*

## DONOR ADVISED FUNDS

	2014	2015	2016
Donor Advised Funds			
Number of DAFs	240,960	266,584	284,965
Assets	\$69.98	\$77.63	\$85.15
Grant Making	\$12.32	\$14.26	\$15.75
Private Foundations*			
Number of Foundations	79,729	81,483	83,276
Assets	\$712.45	\$728.83	\$752.50
Grant Making	\$41.27	\$43.73	\$45.15

*Italics* indicate an NPT estimate using compound annual growth rate for 2011 - 2014.

\* The Foundation Center uses the term “independent foundation” for non-corporate private foundations.

Sources: NPT *Donor-Advised Fund Report* for donor-advised funds; Giving USA 2017; Foundation Center for foundations, except where estimated by NPT as noted.

## DONOR ADVISED FUNDS (CONT.)

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- ▶ IRS Notice 2017-73
  - IRS & Treasury are considering issuing proposed regulations under IRC 4967 that would address certain questions as they pertain to Donor Advised Funds.
- ▶ Distributions from a DAF that pay for the purchase of tickets that enable a donor to attend or participate in a charity-sponsored event would result in a “more than incidental benefit” to the donor or donor advisor and thus in an excise tax under section 4967.
- ▶ Certain distributions from a DAF that a charity treats as fulfilling a pledge made by a donor or donor advisor would not result in a “more than incidental benefit” under section 4967, provided that the sponsoring organization made no reference to the existence of any individual’s pledge when making the distribution.
- ▶ Note: These rules have yet to be finalized and are presented for information purposes with regard to potential future changes.

## Approaching donors

*How to speak to donors to maximize their gifts and impact*

# APPROACHING DONORS

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- ▶ Be prepared to have the same conversations with donors.
- ▶ Maintain relationships, build trust, and have proactive dialogue.
- ▶ Have an awareness of the most recent changes and trends.
- ▶ Encourage donors to surround themselves with a team of professional advisors.
- ▶ Understand the key factors that drive donors to give.
  - The 2016 U.S. Trust Study of High Net Worth Philanthropy found donors give to their favorite organizations based on:
    - Believing in the mission of the organization (54%)
    - Believing that their gift can make a difference (44%)
    - Experiencing personal satisfaction, enjoyment, or fulfillment (39%)
    - Supporting the same causes annually (36%)
    - Giving back to the community (27%)
    - Adhering to religious beliefs (23%)

Questions?

# RESOURCES

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- ▶ AICPA Blog | May 19, 2017
  - What Motivates Donors to Give?
  - <http://blog.aicpa.org/2017/05/what-motivates-donors-to-give.html#sthash.N0WCNYQT.dpbs>
- ▶ National Philanthropic Trust
  - 2017 Donor Advised Fund Report
  - <https://www.nptrust.org/daf-report/index.html>
- ▶ Wall Street Journal
  - Charity Funds Take Off as Tax Law Reshapes Giving
  - <https://www.wsj.com/articles/charity-funds-take-off-as-tax-law-reshapes-giving-1517502089>
- ▶ Internal Revenue Service
  - IRS Notice 2017-73
  - <https://www.irs.gov/pub/irs-drop/n-17-73.pdf>