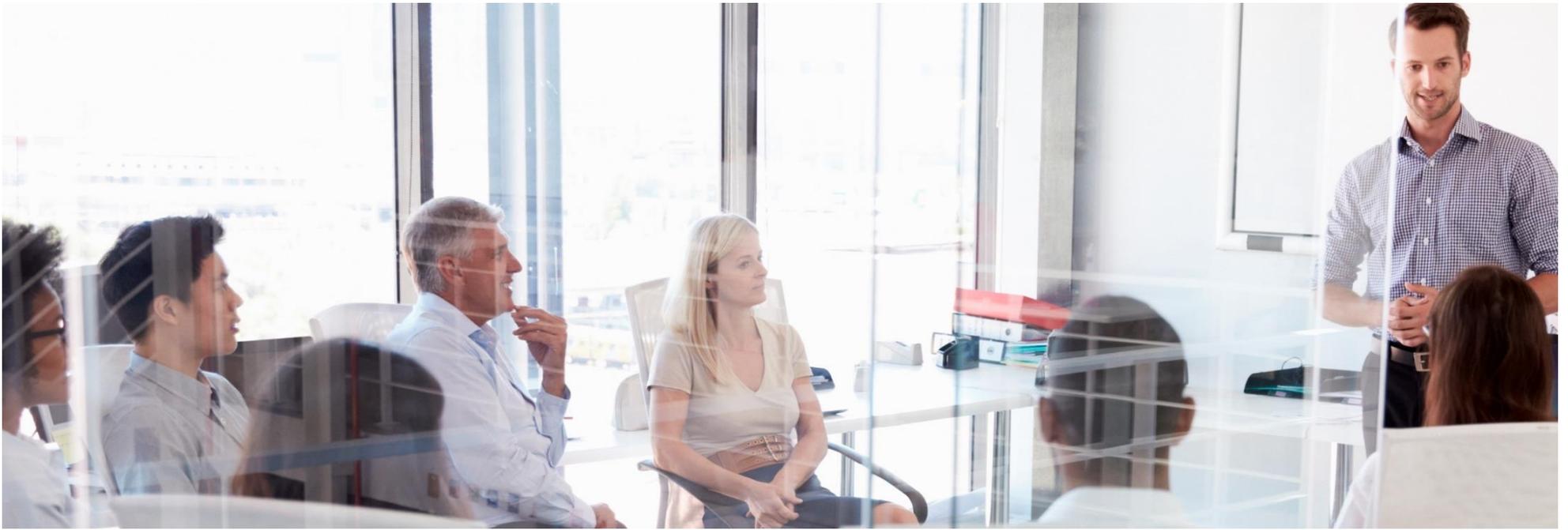


ART MUSEUM DEVELOPMENT ASSOCIATION TAX REFORM AND PHILANTHROPY



Denver, Colorado | 2018

Jeffrey D. Belair, CPA
jbelair@eksh.com
303-740-9400

EKS&H

OVERVIEW

- ▶ 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

- ▶ 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 - Personal exemptions are repealed.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.)

- ▶ 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.)

Example – Married Filing Joint	2017	2018
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	<u>38,000</u>	<u>18,000</u>
Standard Deduction	<u>12,700</u>	<u>24,000</u>
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

- ▶ 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.)

▶ 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.)

- ▶ 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

- ▶ 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

- ▶ 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>