



SMART GIVING AT HIGHLAND PARK PRES

IMPROVING THE EFFECTIVENESS OF YOUR GENEROSITY BENEFITS THE KINGDOM

Highland Park Presbyterian Church has always been known for its generosity. We exist to lead all generations to become transformed followers of Jesus for the flourishing of our city and beyond. This is a shared vision driven by the generosity of our members through their gifts of time, talent, and treasure.

The information in this document is dedicated to helping you become more effective in your generosity by sharing some tax-friendly techniques to encourage both higher giving and smarter giving. First, we will briefly explore how the new tax reform law impacts charitable giving. Then we will review several gifting ideas that can encourage your giving and serve as the basis for better financial decisions.

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This document is not intended to offer tax or financial advice. You should always consult your personal tax consultant or financial advisor before making major financial decisions. If you want to discuss any of these ideas and how they might apply to your personal situation, please feel free to contact [Andy Raub](#), Director of Generosity and Stewardship.

TAX CUTS & JOBS ACT CHANGES GIVING STRATEGIES

HOW THE NEW TAX LAW CHANGES GIVING STRATEGIES

Tax planning has always been an important part of charitable giving. However, the new tax law has made the need to be strategic about gifting decisions even more important. Here are some highlights from the new tax law that may impact how you plan your giving:

- Standard deductions have been doubled.
- The highest tax bracket has been lowered to 37%.
- Capital gains tax is 20% for the top bracket and 15% for all others.
- Property tax deductions have been limited to \$10,000.

To help you reevaluate your giving and financial planning strategies, here are some of the important details of the new law that could impact you, along with a discussion of specific donation techniques that could help you save taxes and increase your capacity to give.



7 WAYS THE NEW LAW COULD AFFECT YOU

DETAILS ABOUT CHANGES IN THE NEW TAX LAW

1] CHARITABLE DEDUCTIONS

If you itemize your deductions, you still can claim charitable giving on your return and receive a tax benefit. However, there are some law changes that may impact your giving strategy.

2] CARRY FORWARD RULE

This provision allows you to give beyond the charitable contribution limits in a given tax year and deduct the overage in later years—helpful with long-term tax planning.



7 WAYS THE NEW LAW COULD AFFECT YOU, cont.

3] INCREASED STANDARD DEDUCTION THRESHOLD

The new standard deduction is almost double previous amounts.

- Under 65 years old: \$12,000 (individuals) / \$24,000 (couples)
- Over 65 years old: \$13,600 (individuals) / \$26,600 (couples)

As a result, many Americans won't have enough deductions to make itemizing worthwhile. The elimination of popular deductions such as some moving expenses, tax-prep fees and the interest on home equity loans will cause fewer people to itemize their deductions.



4] CAPITAL GAINS RATES

Long-term capital gains rate of 20% remains for those in higher tax brackets, along with the Medicare surtax of 3.8%. Giving long-term appreciated assets to charity allows you to preserve that 23.8%, enabling you to give more. You also can claim the fair market value of the assets as a tax deduction.

5] INCREASED LIMIT AMOUNT FOR CASH CONTRIBUTIONS

Taxpayers can deduct up to 60% of their adjusted gross income for cash donations (up from 50%). Now you can deduct a higher amount of donations than in previous years.

6] LIMITED STATE AND LOCAL TAX (SALT) DEDUCTIONS

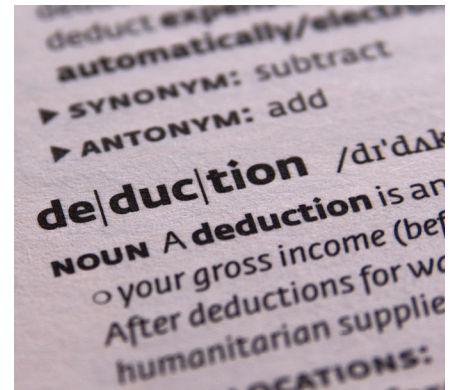
There's a \$10,000 cap on the amount of state and local income, sales, and property taxes that can be deducted. This change may also cause many people to use the higher standard deduction and stop itemizing.



7 WAYS THE NEW LAW COULD AFFECT YOU, cont.

7] REPEALED PEASE LIMITATION

This is good news for high-income taxpayers. The Pease Limitation reduced the amount of itemized deductions by 3% of adjusted gross income over a certain threshold, until it phased out as much as 80% of the value of a tax payer's itemized deductions. With Pease eliminated, high-income charitable givers can now deduct more.



5 TAX-SMART DONATION TECHNIQUES

Receiving a tax deduction is likely not your main motivation for making charitable donations. However, using tax-smart giving strategies could help you achieve a financial trifecta:

- Lower income taxes
- Raise spendable income
- Increase charitable giving

Five tax-smart strategies are outlined in detail in the following pages:



- 1] Using Skip Year Bunching of Deductions
- 2] Establishing a Donor Advised Fund
- 3] Giving Appreciated Assets Better Than Cash
- 4] Selling Losing Investments for Cash Giving
- 5] Gifting Required IRA Distributions

5 TAX-SMART DONATION STRATEGIES, cont.

1] USE SKIP YEAR/BUNCHING TO MEET THE INCREASED HURDLE FOR ITEMIZATION

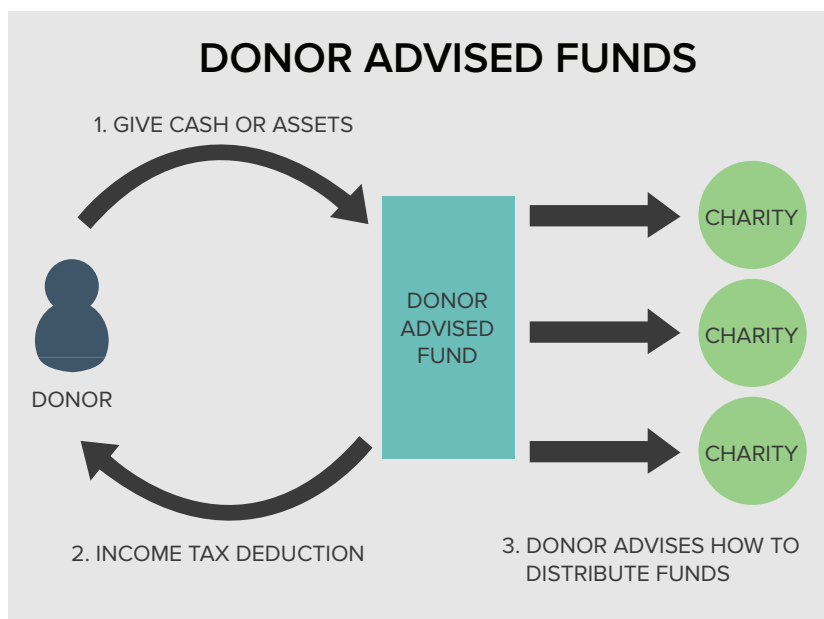
The increase in the standard deduction means that itemizing tax deductions each year won't make sense for many donors. Many taxpayers won't accumulate enough deductions to surpass the annual standard deduction threshold.

A tax-smart strategy to overcome this issue is called "bunching" where you can **group together your deductions into a single year** in order to surpass the itemization threshold in a particular year. In off years (or skip years), you would take your standard deductions.

Using this strategy, donors can contribute multiple years' worth of their charitable donations in a single year to **receive a greater tax deduction**. By placing that money in a Donor Advised Fund (next strategy), the donor creates a cache of available funds to continue yearly charitable support.

2] USE A DONOR ADVISED FUND TO LEVERAGE TAX DEDUCTIONS AND GIVING

A donor-advise fund (DAF) **operates almost like a personal mini-foundation**. A DAF is a charitable investment account that you can open through the Highland Park Presbyterian Foundation, community foundation, or brokerage firm. You can make tax-deductible gifts to your DAF using cash or appreciated investments, then choose when and where you want to designated money to be sent.



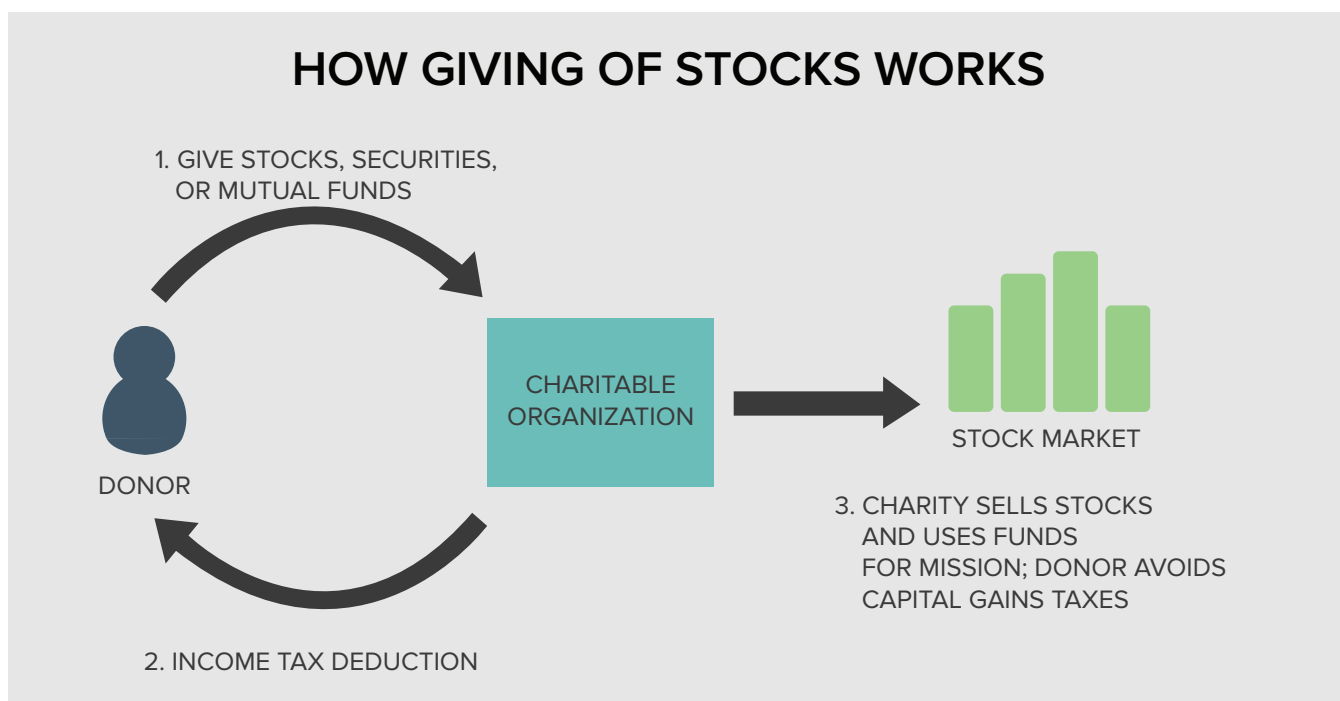
It's a perfect option for those who want to use the bunching strategy and maintain their giving habits each year. Simply make your gift to the donor-advised fund during the year in which you plan to itemize your deductions and enjoy the immediate tax break for your contribution. Then you can make grant requests to Highland Park Presbyterian Church or any IRS-qualified public charity, even during the years when you're not contributing to the donor-advised fund.

The fund allows gifts of cash through check or wire transfer, but also offers a big tax advantage for gifts of non-cash assets.

5 TAX-SMART DONATION STRATEGIES, cont.

3] GIVING APPRECIATED ASSETS MAY BE BETTER THAN GIVING CASH

Giving appreciated investment assets directly to the church can have a big tax benefit. By contributing long-term appreciated assets such as bonds, stocks or real estate, you can avoid the 20% capital gains tax and 3.8% Medicare surcharge that would have incurred by selling the assets. This allows you to give 23.8% more, while also receiving a charitable deduction for the fair, full market value of the donated assets.



Not only does donating appreciated assets increase your capacity to give, it could also increase your spendable income, because it could take the place of donating cash. This can be a real win-win situation. You can also use this technique to fund a Donor Advised Fund if you set one up.

Some rules apply depending upon how long you've owned the appreciated stock in question:

- *Less than a year:* If the stock has been owned by you for less than a year, your deduction is limited to the cost basis (what you paid for the stock) not the current market value.
- *More than a year:* Stock held over a year can be deducted at its current fair market value on the date it is gifted.

On the next page, let's look at an example of how this might work for you.

5 TAX-SMART DONATION STRATEGIES, cont.

Assume that Tom and Susie bought a mutual fund several years ago for \$10,000. After several years of market growth, the fund is now worth \$20,000. Tom and Susie regularly give \$20,000 to HP Pres. If they sold the mutual fund, they would be faced with paying at least \$1,500 in capital gains tax. On the other hand, if they gave the mutual fund directly to the church, they would get their full charitable deduction for the \$20,000 donation and they would also save \$1,500 in tax.



To donate investments directly to the church, contact the church business office for the proper forms and to review the procedures. Like any other gifting technique, be sure to talk to your financial advisor or tax advisor first.

4] SELLING LOSING INVESTMENTS CAN CREATE CASH FOR GIVING

Another way to use your investment portfolio to help with giving is to sell losing investments and earmark them for gifts. Many people rebalance their investments and harvest tax losses at a time when the market has risen. If a particular investment has lost value and you no longer want to hold it, it could be better to sell it and give the proceeds to the church. Then you will be able to take a capital loss to offset future gains, and you will also receive a charitable deduction equal to the market value for your gift. Another winning combination.



5 TAX-SMART DONATION STRATEGIES, cont.

5] GIFT IRA REQUIRED MINIMUM DISTRIBUTIONS TO MAXIMIZE TAX-SMART GIVING

If you are over age 70½, you are required to take a portion of your IRA, called a Required Minimum Distribution (RMD), as taxable income each year. Current tax law allows you to gift up to \$100,000 of your RMD directly to charity and exclude that amount from your taxable income. This is called a Qualified Charitable Distribution (QCD) and is becoming a favorite way for retirees over age 70½ to increase their donation effectiveness.

As we noted, the new tax law nearly doubled the standard deduction. This means that many retirees can no longer deduct their charitable contributions, because they do not have enough itemized deductions to meet the threshold. However, many IRA owners who are over 70½ have the best of both worlds. They can eliminate the income tax from their IRA required distribution and take the higher standard deduction.

Here is an example of how an IRA QCD might work to boost your tax benefits:



Bob and Mary are both 72 and retired. This next year they must withdraw a total of \$40,000 from their IRA accounts for their RMD. They contribute \$10,000 to their church each year for which they write monthly checks. Because of the tax law change, they are now taking the standard deduction of \$26,600 rather than itemizing. This means they cannot deduct their \$10,000 donation to their church.

If they donate the \$10,000 directly from their IRA to the church, they will not owe taxes on the donated amount because it will reduce their taxable RMD from \$40,000 to \$30,000. In addition, because their adjusted gross income is reduced by \$10,000 it could lower their Medicare Part B and D premiums.

As you can see, donating your RMD can be a powerful tax planning tool for those over 70½.

SMART GIVING - CONCLUSION

Please remember that each situation is different and there are several important details to be aware of in planning. Therefore, as with all tax and financial decisions, be sure to consult your CPA and professional financial advisor. This document is designed to give you ideas, but it is not intended to give tax and financial advice. If you want to discuss any of these ideas and how they might apply to your personal situation, please feel free to contact Andy Raub, Director of Generosity and Stewardship.

