Tax & Financial Planning News
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Year-End Tax Planning: Charitable Donations

*With only six weeks left in the year, we outline two planning strategies that may be relevant for you in 2018 following the 2017 Tax Cuts and Jobs Act (TCJA) – both are related to **charitable donations** and could yield significant tax savings.*

There were two key provisions in the TCJA that will affect most taxpayers' deductions moving forward:

1. The itemized deduction for state and local income taxes, including real estate and personal property taxes, is now **capped at $10,000** (historically, this has been many individuals' largest tax deduction).
2. The **standard deduction has nearly doubled**, an increase to $24,000 for married couples filing jointly and $12,000 for single filers.

Itemized Deductions	Pre TCJA 2017	Post TCJA 2018
State and Local Taxes		
Virginia Income Taxes	$ 22,000	$10,000 cap
Real Estate Taxes	8,000	
Personal Property Taxes	1,000	
Charitable Donations	12,000	12,000
Total Itemized Deductions	**$ 43,000**	**$ 22,000**

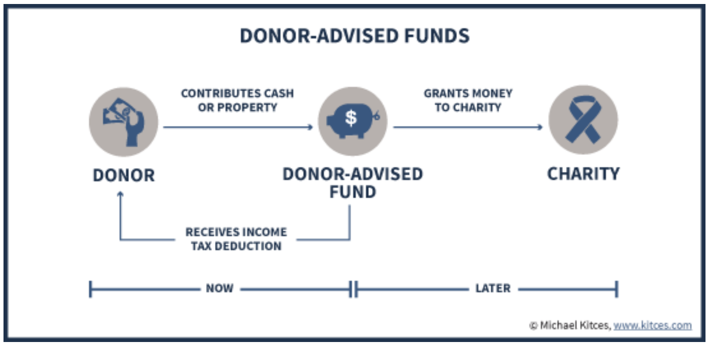
will take $24,000 Standard Deduction

As a result, **it will be harder for many taxpayers who itemized deductions in the past to do so in 2018 and beyond**. See example at right.

Faced with the prospect of having deductions limited going forward, if you plan to make charitable donations over the next several years we recommend considering a strategy to maximize income tax deductions that "lumps" several years of charitable donations into a single tax year. If you do this through a **Donor Advised Fund** (DAF), you receive a larger tax deduction when the account is funded but you can make gifts from the Fund to the ultimate charitable beneficiaries over the next several years or more. Here's an overview:

DONOR ADVISED FUND

- With a Donor Advised Fund, the owner gets a tax deduction the year in which contributions are placed in the Fund. You can donate cash or appreciated stock, and if stock is donated the donor still receives a tax deduction equal to the full FMV of the stock.
- Once in the DAF, the investments grow tax-free and may be sold and held in cash, or reinvested for diversification (in the case of a single, appreciated stock position that initially funds the account), with zero capital gains tax.
- It is the donor's decision when, and how much, he or she wants to gift from the Fund to the ultimate charitable beneficiaries – the only requirement is that all DAF contributions must eventually go to a 501(c) 3.
- There is no deadline to make donations from the Fund, so you could "lump" 5-10 years' worth of donations into a single tax year and make gifts from the Fund over time.



- In addition to providing a solution or work-around for the new standard deduction, Donor Advised Funds work particularly well in **high income years** (think business sale, company equity vest, or large bonus) when you are in a higher tax bracket than you expect to be in the next several years.

• **EXAMPLE** • If a married taxpayer donates $12,000 to charity each year, plus takes the $10,000 maximum deduction for state and local taxes, itemized deductions of $22,000 would not exceed the $24,000 standard deduction. This taxpayer would take the $24,000 standard deduction. Over three years, taking the standard deduction each year, cumulative deductions would total $72,000 ($24,000 x 3 = $72,000).

Instead, if they grouped three years' worth of the same level of charitable donations into a single year and took the standard deduction the other two years, cumulative deductions would total $94,000 across three years ($46,000 + $24,000 + $24,000 = $94,000). Assuming a 35% tax bracket, this would drive a $7,700 tax savings.

Itemized Deductions	2018	2019	2020
State and Local Taxes			
Virginia Income Taxes Real Estate Taxes Personal Property Taxes	$10,000 cap	$10,000 cap	$10,000 cap
Charitable Donations	36,000	-	-
Total Deductions	$ 46,000	$ 10,000	$ 10,000
Itemized vs. Standard	*Itemized*	*Standard*	*Standard*
Tax Deduction	$ 46,000	$ 24,000	$ 24,000
Cumulative Deductions		$94,000	

In this example, $94,000 of cumulative deductions is significantly higher than three years of the $24,000 standard deduction, or $72,000.

QUALIFIED CHARITABLE DISTRIBUTION

- If you are age 70-½ or older by the end of 2018, and have traditional IRAs, consider making 2018 charitable donations via qualified charitable distributions (QCDs) from your IRAs.
- QCDs are **made directly to charities from your IRAs**, and the amount of the contribution is neither included in your gross income nor deductible on Schedule A, Form 1040 (working particularly well for those taxpayers that will not itemize deductions in 2018 and beyond).
- The amount of the qualified charitable distribution reduces the amount of your required minimum distribution (RMD), resulting in further tax savings.

It is important do run detailed income tax projections to determine if either or both strategies could be utilized to reduce your income tax exposure. If you would like to establish a Donor Advised Fund or donate via a QCD, please do not hesitate to reach out – (804) 325-1450.

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1401 EAST CARY STREET, SUITE 401, RICHMOND, VIRGINIA 23219 | www.canalcapitalmanagement.com | T +1 804.325.1450 | F +1 866.381.5362