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# Tax Reform Takeaways for Nonprofits and Philanthropists

Since the sweeping tax reform legislation H.R.1 known as the Tax Cut and Jobs Act ("TCJA") became Public Law No: 115-97, there has been much discussion in the nonprofit sector around the complex and significant effects of the TCJA on nonprofit organizations and their donors. Below we highlight some of the significant takeaways from the new law for nonprofits and their financial supporters:

## 1. Tax cuts may diminish incentives for donors to give.

The TCJA is expected to reduce the effective federal income tax rates of most taxpayers and to substantially reduce the number of those who itemize their deductions. Furthermore, the TCJA doubles the exclusion for estate, gift and generation-skipping transfer taxes. Americans will derive no Federal income tax benefit from giving to charity unless their charitable gifts, in combination with their other itemized deductions, exceed $24,000 in any taxable year for a married couple ($12,000 for a single taxpayer), which research suggests could cause an overall decline of 4% to 6.5% ($12 billion to $20 billion) in 2018. Donors seeking to preserve the tax benefits of their charitable contributions, however, may consider "bunching" multiple years' worth of gifts into a single tax year either directly to charitable organizations or through donor-advised funds.

## 2. For donors who itemize, there may be an opportunity to deduct more.

Despite the increased standard deduction, some taxpayers—particularly those with higher incomes—will continue to itemize. The TCJA includes some modest charitable giving benefits for these higher income individuals by increasing the percentage of one's adjusted gross income that may be deducted in a given tax year for charitable gifts of cash. It also does away with the Pease Limitation, which in past years had functioned to reduce the value of itemized deductions for some high-income taxpayers.

## 3. Nonprofits should beware of potential increases in taxes.

While generally thought of as a tax-reduction package, the TCJA creates some new taxes, two of which are specifically targeted at a limited group of nonprofits. The first is on "excess compensation," which applies to nonprofits with employees earning more than $1 million per year. The second taxes the net investment income of private colleges and universities with at least 500 full-time students and endowments valued at over $500,000 per student. In addition, under the new rules, some non-profits will see an increase in Unrelated Business Income Tax (UBIT).

## 4. The work of nonprofits will be more important than ever.

Oftentimes, as tax revenue decreases—as is expected under the TCJA—so do the social services provided by all levels of government. It could be that nonprofits will be called upon to pick up the slack in providing those reduced or discontinued services. These challenges could present an opportunity for nonprofits to deepen the engagement and support of donors in the important mission of the organization, and to emphasize non-tax reasons to give.

## 5. Collaboration between nonprofits and their funders is essential.

In light of the potential impacts of the TCJA on the fundraising and operational costs of nonprofits, it is a great time for funders to collaborate with the organizations they support to discuss how funding needs may change as a result of the law. In addition, donors can still pursue options with tax benefits such as direct IRA Charitable Rollover contributions, donations of appreciated assets, and philanthropic vehicles such as charitable remainder trusts and gift annuities. For private schools, the expanded use of 529 plans and education tax credits may present new opportunities for funding.

To learn more about the TCJA's effects on nonprofits and philanthropy visit the National Council of Nonprofits and the Council on Foundations.

If you have further questions, don't hesitate to contact your Relationship Team or email us at Top5@glenmede.com.