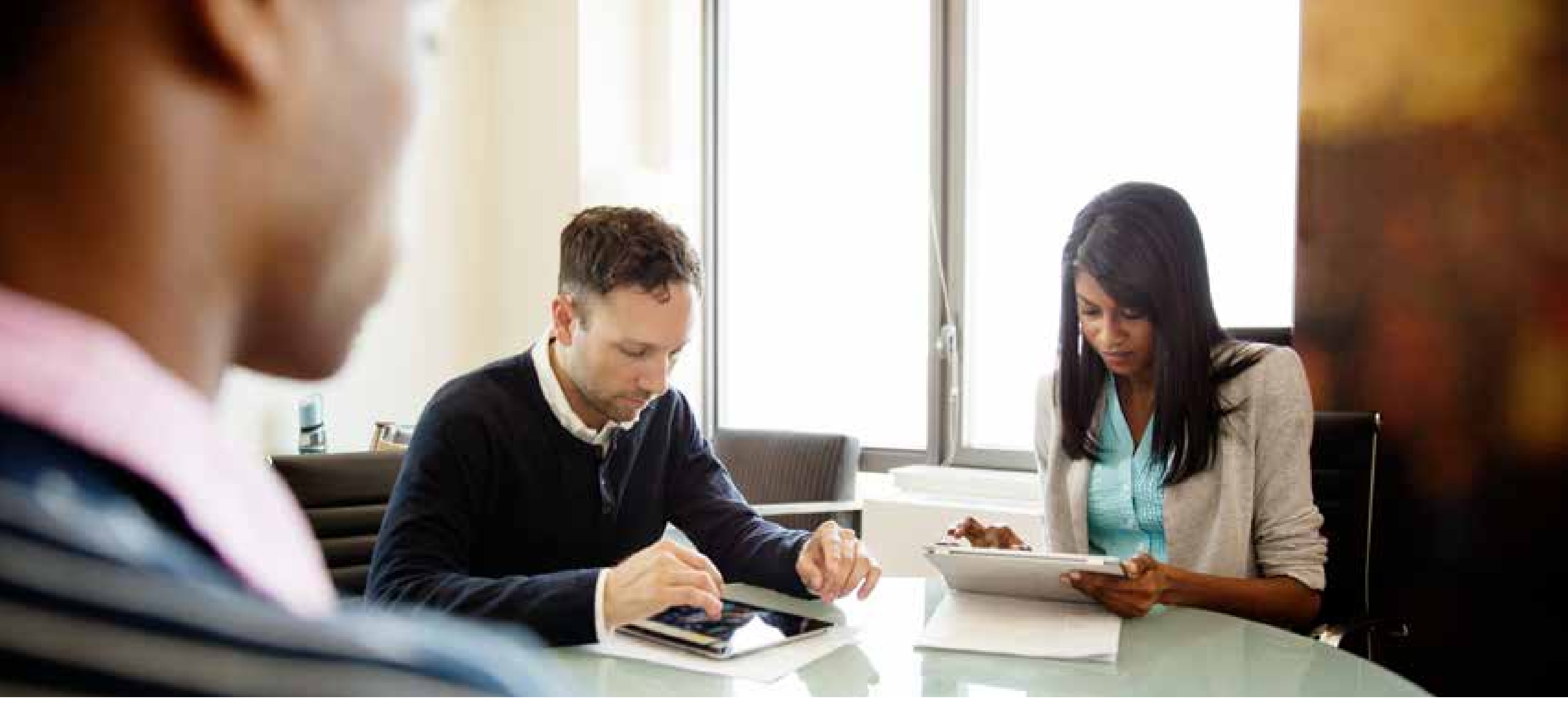

# Trends and strategies to watch for charitable giving

As a significant tax overhaul, the Tax Cuts and Jobs Act could influence the way taxpayers give to charity. With such significant changes, it is a good time to reflect on your charitable giving and tax planning strategy. Below we offer a few of the trends you may see in 2018 and strategies to get the most out of your charitable giving.

## 1. Bunching charitable contributions to meet increased hurdle for itemization

With the standard deduction doubled and many popular deductions eliminated, you may find that it doesn't make sense to itemize your tax deductions in 2018 and beyond. But how can you still receive a tax benefit for charitable giving?

One strategy to consider is called "bunching." To take advantage of this strategy, you contribute multiple years' worth of your charitable giving in one year to surpass the itemization threshold. In off-years, you could take the standard deduction.

Consider this example. John, who files as single, donates $10,000 each year to his alma mater. In the past, his $10,000 donation put him easily over the threshold to itemize, and he has deducted the amount from his income as a charitable tax deduction.

Starting in 2018, his charitable donation alone will no longer surpass the standard deduction threshold, which is now set at $12,000 for single filers. However, if he "bunches" two years of donations into one year, he will be able to itemize every other year and receive the full tax benefit of his charitable giving.

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 |
|---|---|---|---|---|---|---|
| | **Pre-Tax Reform Strategy** | | | | | |
| **Donation** | $10,000 | $10,000 | $10,000 | $10,000 | $10,000 | $10,000 |
| **Deduction** | Itemize | Itemize | Itemize | Itemize | Itemize | Itemize |
| | **Post-Tax Reform Strategy** | | | | | |
| **Donation** | $20,000 | $0 | $20,000 | $0 | $20,000 | $0 |
| **Deduction** | Itemize | Standard | Itemize | Standard | Itemize | Standard |

## 2. Taking advantage of increased AGI limit in high-income year

While you may find that "bunching" is a tax-savvy strategy for your current situation, adjusting the cadence of your giving can also be useful if you find yourself experiencing a particularly high-income year.

In years when income is high or you receive a windfall, charitable giving can help you manage the associated tax burden. The new tax law increases the AGI limit on cash charitable contributions from 50% to 60% and repeals the Pease limitation. These changes mean you can receive a greater deduction for greater giving. And accelerating your giving can help you save even more on taxes.

For example, Mary typically donates $10,000 to charity each year. The chart below shows her tax savings if she donates 10 years' worth of her contributions in her high-income year. Strategies #2 and #3 show her tax savings if she continues donating $10,000 annually, whether she itemizes her deductions moving forward or doesn't, respectively. Donating the lump sum could save her thousands of dollars in taxes, while providing the same level of support to her favorite charities.

**Giving Strategies**

| | Income Tax Rate | 1 Accelerated | 2 Annual with itemization | 3 Annual without itemization |
|---|---|---|---|---|
| Year 1 (high-income year) | 37% | $100,000 | $10,000 | $10,000 |
| Year 2 | 24% | - | $10,000 | $10,000 |
| Year 3 | 24% | - | $10,000 | $10,000 |
| Year 4 | 24% | - | $10,000 | $10,000 |
| Year 5 | 24% | - | $10,000 | $10,000 |
| Year 6 | 24% | - | $10,000 | $10,000 |
| Year 7 | 24% | - | $10,000 | $10,000 |
| Year 8 | 24% | - | $10,000 | $10,000 |
| Year 9 | 24% | - | $10,000 | $10,000 |
| Year 10 | 24% | - | $10,000 | $10,000 |
| **Total Donation** | | **$100,000** | **$100,000** | **$100,000** |
| **Tax Savings** | | **$37,000** | **$25,300** | **$0** |

## 3. Growth in donating appreciated securities amid market gains

Donating appreciated securities to charity will reduce income tax liability and eliminate capital gains tax on the assets. Capital gains taxes are eliminated when you contribute long-term appreciated assets directly to a charity, like Fidelity Charitable, instead of selling the assets yourself and donating the after-tax proceeds. When you assume 20% for federal long-term capital gains taxes, plus a 3.8% Medicare surtax, this leads to a potential increase of 23.8% of both your tax deduction and your charitable contribution.

In addition, while the tax law increases the AGI limit on cash contributions, it maintains the rule that 30% of AGI can be contributed in securities. Maxing out the 30% limit in securities before contributing cash is a very tax-efficient method of charitable giving.

Outlined below is a hypothetical example showing the advantages of donating a long-term appreciated security as compared to selling the asset and donating the cash proceeds. In this scenario, the donors, Matt and Veronica:

- Are in the 37% federal income tax bracket.
- Have an asset that has an FMV of $450,000 that includes unrealized gains of $150,000, which could be subject to a 20% capital gains and 3.8% Medicare surtax.

**Selling Matt and Veronica's Securities vs. Donating**

**Value of securities[1]**

**$450,000**

*Original cost of securities: $300,000[2]*
*Federal long-term capital gains rate: 23.8%[3]*

| Sell the securities<br>Donate the proceeds | vs. | Donate the securities |
|---|---|---|
| $35,700 | Long-term capital gains tax paid | $0 |
| $414,300 | Charitable contribution | $450,000 |

Reduced their tax obligation by: **$13,209[4]**

Additional amount dedicated to charity: **$35,700**

**Bonus tip: Strong M&A markets driving giving**

Current market conditions and the newly reduced corporate tax rate could create an active mergers and acquisitions environment in 2018, which can expose investors to capital gains even if they are not selling stock. Tax-smart investors will watch for potential M&A activity in their portfolios and act before they accrue forced capital gains. Charitably inclined investors may choose to donate their appreciated securities as a smart solution for eliminating capital gains tax.

*[1] Amount of the proposed donation is the fair market value of the appreciated securities held more than one year that you are considering to donate.*

*[2] Total Cost Basis of Shares is generally the amount of money you have invested in the shares of a particular fund or individual security. It represents the basic dollar amount that, when compared to the price at which you sell your shares, tells you how much of a capital gain or loss you have realized.*

*[3] This assumes all realized gains are subject to the maximum federal long-term capital gain tax rate of 20% and the Medicare surtax of 3.8%. This does not take into account state or local taxes, if any.*

*[4] Assumes no unrelated business taxable income (UBIT), and top ordinary income tax rate of 37% for valuing charitable deduction. $13,209 reduced tax obligation calculated by comparing the tax benefit of a deduction of $450,000 at 37% versus a deduction of $414,300 at 37%. It does not account for any state and local taxes or alternative minimum tax.*

# How a donor-advised fund can help maximize giving

A donor-advised fund is an ideal vehicle for tax-savvy charitable giving. By making a charitable contribution to a donor-advised fund such as a Fidelity Charitable Giving Account®, you become eligible to take an immediate tax deduction for the amount contributed. Your contributions are invested so they have the potential to grow tax-free and generate more money for the charities you care about. You can then support your favorite charities in a time frame that works for you.

All of the tax planning strategies discussed in this paper can be supported and enhanced by using a donor-advised fund. Donor-advised funds make it easy to contribute appreciated securities directly to charity. And if you choose to accelerate your giving in a high-income year or via the "bunching" strategy, a donor-advised fund can hold your cache of charitable dollars—allowing you to maintain support of your favorite charities for years to come. A donor-advised fund can enable smart, tax-efficient charitable giving, and they are quickly becoming a go-to solution for Americans to manage their charitable giving.