

Changes to tax laws in 2018 and how they might affect your philanthropic giving.

By Karlene Grabner of Oshkosh Area Community Foundation 920.426.3993

New tax laws went into effect right at the end of 2017, and you may still be wondering what exactly has changed and how those changes will affect your philanthropic giving. I recently met with Jim Malczewski, partner with Baker Tilly Virchow Krause, LLP, and this is what I learned:

State tax deductions. When you look at itemized deductions historically, it's likely that your biggest deduction was your state income and property taxes. Until now there was no upper limit to the amount for this deduction, but under this new law the maximum deduction you will receive for income and property taxes will be \$10,000. High income earners (say for example \$500,000) who pay significant state income and home property taxes will no longer get a deduction for anything beyond the \$10,000 limit.

Standard deduction. For married couples filing jointly, the standard deduction rose from \$13,000 to \$24,000. This changes things for a good deal of households that had previously itemized their deductions but came in under \$24,000. It now no longer pays to itemize deductions if they are under \$24,000, and instead they can just take the standard deduction. For the average taxpayer, this simplifies their tax filing.

Itemizing over the \$24,000 standard deduction. Remember, itemized deductions include state income and property taxes (limited to \$10,000), medical expenses (to the extent that they exceed 7.5% of AGI), home mortgage interest, *and of course charitable deductions*. Where taxpayers find their home mortgage interest plus the \$10,000 of state taxes gets them close to the \$24,000, we expect to see a rise in the practice known as ***bunching***.

For example, assume a couple has \$11,000 of mortgage interest, meets \$10,000 of state taxes, and typically donates \$3,000 per year. Their itemized deductions would exactly equal the \$24,000 standard deduction amount each year. Now, if they bunch two years of donations (\$6,000) into year one, they would have \$27,000 of itemized deductions. Then, in year two they would take the \$24,000 standard deduction because their itemized deductions would only total \$21,000. Between the two years they will increase their tax deductions by \$3,000.

There are plenty of other important changes, but as I see it, when donors feel more confident and have more cash, they will usually be more generous.

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