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Long Beach Business Journal

Do We Give To Help Our Hearts Or Our Wallets? The Trump Tax Plan Might Reveal The Answer

November 6, 2017 | Anne Artley, Staff Writer

When it comes to tax reform, one of President Trump's stated goals is to give American workers a "raise" by allowing them to keep more of their paychecks. Among other changes, the GOP tax plan calls for the doubling of the standard deduction to benefit the middle class, thereby potentially eliminating the incentive for many to itemize deductions, including charitable deductions. But tax professionals and representatives from local philanthropies reported that these changes could remove personal incentives for donating money, thus begging the question: do we give from our hearts or to help our bottom line?

Nonprofit Partnership Executive Director Linda Alexander expressed concern that individual contributions would decrease under the Republican tax plan. The bill calls for doubling the standard deduction to benefit the middle-class, eliminating the incentive for many to itemize deductions, including charitable donations. (Photograph by the Business Journal's Brandon Richardson)

When filing, taxpayers have an option to claim the standard deduction or itemize each deduction, whichever lowers their taxes the most, according to H&R Block. While the plan retains itemized tax incentives for charitable contributions, there is nothing built in to the standard deduction to reward charitable giving. Linda Alexander, executive director of the Nonprofit Partnership in Long Beach, expressed concern that individual contributions would decrease without a personal benefit to the donor.

"The expectation is nonprofits that get their money from the middle class are going to be hardest hit," she said. "Most count on the middle-class donor, not big contributions. It's people who are giving from $50-$250 per year that are the bread and butter of the sector."

Alexander, whose organization provides support to nonprofits, cited an Indiana University study that predicted tax policy changes could reduce donations by up to $13.1 billion. She said that, while the holidays may encourage a spirit of giving, she receives an influx of donations in the last few days of the year.

"You see this incredible spike in donations that starts in November," she said. "A good percentage of that is for tax deductions. If it was purely just charitable, I'd imagine giving would be pretty consistent between Thanksgiving and Christmas. Maybe it would even drop off after Christmas, but the giving actually swoops up during the last few days of the year." Alexander noted that donors must give within the calendar year to write it off on this year's taxes.

The largest and most well-known nonprofits already receive a disproportionate amount of funds, and this trend is likely to continue if the GOP tax plan passes in its current form.
"The vast majority of giving in the United States goes to 5% of the largest nonprofits in the country," she said. "That means there's a very small amount of money that gets spread across the 1.2 to 1.5 million nonprofits across the country."

The Josephine S. Gumbiner Foundation Executive Director Julie Meenan said that if individual donations diminished, nonprofits would struggle to replenish those resources. She cited statistics from Giving USA: The Annual Report on Philanthropy that reported 72% of charitable donations are made by individuals while contributions from foundations comprised 15%.

"The demand on our limited dollars that we make in grants each year would skyrocket," she said. The Gumbiner Foundation supports organizations providing resources for women and children.

St. Mary Medical Center Foundation President Drew Gagner agreed that, while the tax plan could possibly have a "deleterious" impact on charitable giving overall, he does not think it will affect his foundation's upwards of 2,100 yearly donors.

"I don't have any proof, but I truly believe most individual charitable donations aren't typically tied to making a tax-deductible donation," he said. He added that, "St. Mary's has been very fortunate. This past year, we raised almost $9.1 million, the year before was about

$7.2 million, while six or seven years ago we raised about $4 million per year. Things have been going up progressively for us and we believe that will continue."

Accounting firm Holthouse, Carlin & Van Trigt (HCVT) partner Blake Christian also said that he did not think most charitable donations were made with a personal incentive in mind; thus, the plan would not have a significant impact, except perhaps among low-income taxpayers.

"My experience with taxpayers is that 80 percent of people are giving for purely philanthropic reasons, so that won't stop," Christian said. "I think President Trump certainly has a focus on philanthropic good deeds, so I wouldn't be surprised if Congress put something in the plan to encourage lower-income people to continue to give."

In fact, Republican Congressman Mark Walker of North Carolina introduced a bill, the Universal Charitable Giving Act, to establish a charitable deduction for individuals and married couples who do not itemize. Under the proposed legislation, taxpayers can deduct endowments of up to one-third of the standard deduction.

Long Beach Rescue Mission Executive Director Robert Probst called the bill "a very important and welcome development," in an e-mail to the Business Journal. Probst explained that, while the tax plan could adversely affect donations, the Universal Charitable Giving Act would "help rescue missions coast to coast." The Long Beach Rescue Mission dispenses food, shelter, clothing and spiritual guidance to the homeless.

Christian predicted that most of his clients will continue to itemize, and so the change in the standard deduction would not likely affect them or their chances of giving. In fact, he said another facet of the Trump tax plan could inspire more philanthropic contributions: the removal of the alternative minimum tax (AMT).

AMT taxes certain income of individuals in the highest tax brackets that would not otherwise be taxed and disallows certain tax deductions, to ensure high earners pay at least some income taxes.

"I think people on both sides of the aisle want to see the AMT go away," Christian said. "It's very cumbersome and hard to plan around." He noted that 80% of his clients, who he described as "higher net worth," are subject to this extra tax, and said that it is rare for the tax to apply under the standard deduction. Christian's clients generally earn a minimum of about half a million dollars per year.

If the AMT were repealed, Christian said, not only would his clients have more disposable income, they could receive a larger tax write-off for any contributions. Christian explained that taxable income under the AMT is higher in most cases, so the majority of his clients end up submitting to it rather than the regular tax. But, while the AMT expands the taxable base, the money is taxed at a lower rate: 28% for the highest bracket versus 39.6% under the current regular tax. Therefore, if the AMT is repealed, benefactors could receive a larger deduction (39.6%) for a philanthropic gift.

"If this goes through as Trump has proposed, charitable contributions will be more valuable to a large number of high net-worth people," Christian said. "It wouldn't explicitly encourage giving, but just the fact of the AMT going away, and the concept of marginal benefits, might help."

Jon Coupal, president of Howard Jarvis Taxpayers Association, said he did not think the plan would have any impact on charitable deductions at all.

"I think people tend to give whether they itemize or not. I think most of the charitable giving is done by middle and higher-class individuals so I don't see that really changing," he said. Coupal stated that, overall, the plan is "a step in the right direction" in terms of re-invigorating the economy.

Marcelle Epley, president of the Long Beach Community Foundation, expressed trepidation that the administration would set new regulations regarding donor-advised funds (DAFs), a vehicle for giving that she described as "charitable checking accounts." A DAF is an account opened with a public charitable organization by a donor with an initial contribution. Going forward, the donor directs funds to be donated ("grants") to charitable organizations of his or her choosing, and may also make more deposits to the DAF. Because the contributions to the account are irrevocable – that is, the donor can't get the money back – he or she gets an immediate tax deduction.

"The donor doesn't need to file annual tax forms to pay attorneys for the administration and setup," she explained. "It's the easiest and most cost-efficient way to have a family foundation. The donor remains active and involved in the giving and retains the ability to make recommendations as to how grants are made from that fund."

Epley's organization focuses on broad charitable contributions throughout the city, rather than on a particular issue. She said that out of the 150 funds the Community Foundation manages, 55 of them are donor-advised.

"There's a sensitivity being discussed that these [DAFs] are a 'placeholder' for charitable funds, and that the administration is considering figuring out a way to make sure these funds are spending the money and not just holding it there," she said.

Epley clarified that there are no restrictions on the timing of endowments from donor-advised funds, as opposed to private foundations, which are required to distribute 5% of their funds annually.

"We're a member of the League of California Community Foundations, the advocacy arm working with community foundations all up and down California to communicate that donor-advised funds need to remain flexible and allow people to give in a way that makes sense for them," she said. "Somebody might be saving to make a large gift, for example. Or a donor might want to build a charitable fund for their children or grandchildren."

Epley expressed hope that, if there is any change in policy, it will shift in a positive direction for community foundations. Under the Pension Protection Act, individuals who are 70.5 years or older can roll over up to $100,000 from their retirement account directly into a qualifying charity without identifying the funds as income, according to The Council on Foundations, a philanthropic network. Thus, benefactors do not have to pay a tax on their gift. However, the policy excludes donor-advised funds.

The Trump tax plan also proposes removing the estate tax, which applies to transferring property after death. Under the current framework, charitable bequests made by estates are incentivized because they lower the taxable amount of assets.

“I could see there being a fall-off in legacy giving, and people maybe retaining their assets and passing them on to the next generation,” Christian said. “But my prediction is . . . we’ll retain the estate tax.”

Archstone Foundation’s President Joseph Prevratil said that, since the plan has yet to become law, it is too early to determine how it will affect his organization, which focuses on supporting the elderly.

“It’s a framework,” he said. “Nobody knows yet how it will appropriately work, or the implications.”