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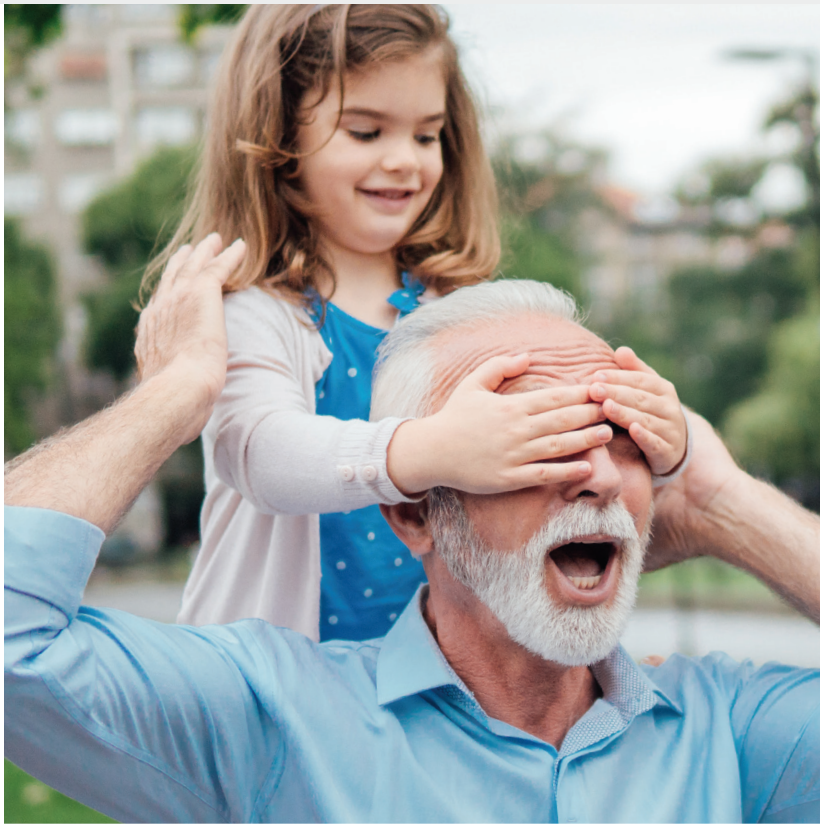
Tax-Smart Giving Strategies

Tax law changes have many donors making some adjustments.



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KEY POINTS

- Tax deductions are important to consider when developing a financial strategy around making charitable contributions.
- Careful planning and donating in a tax-efficient manner could help increase the amount you are able to donate.
- Take the time to evaluate how your existing charitable strategies could be adjusted to be more beneficial as a result of the 2017 tax cuts.

Earlier this year, taxpayers were able to experience firsthand how the 2017 Tax Cuts and Jobs Act directly impacted their 2018 tax filing—and in particular their deductions. The standard deduction amount was increased, and it is likely that many filers found this to be the most beneficial option, even if they had typically itemized their deductions in the past. In switching to the standard deduction, donors may not have been able to claim any charitable contributions they made during 2018.

"Americans appear to be as committed as ever to giving," says Dr. John Brothers, president of T. Rowe Price Charitable.[1] "But the strategies they've used to donate efficiently in the past may benefit from adjustments due to the new tax landscape."

> **Charitable giving remains a core value for many American families.**
>
> –**DR. JOHN BROTHERS**, PRESIDENT OF T. ROWE PRICE CHARITABLE

A strategic approach

Donors typically have a strong commitment to philanthropy and a desire to support the causes that are most meaningful to them, whether they include education, the environment, the arts, or any number of other worthwhile causes. But tax deductions are important to consider when developing a financial strategy around making charitable contributions. Donors can still claim a deduction equal to the fair market value of any long-term appreciated securities they contribute. This means you can support your favorite nonprofits while avoiding potentially significant capital gains taxes.

What's more, careful planning and donating in a tax-efficient manner could help increase the amount you are able to donate. One strategy could include combining two

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years' worth of contributions into one tax year, perhaps at the start or the end of the calendar year, which could result in a higher total itemized deduction for the donor in that year. Then, in the following year, donors could elect to receive the standard deduction instead. The total donation amount wouldn't change, but this strategy would allow donors to take full advantage of any tax deductions.

Exploring donor-advised funds

Another option to consider is a donor-advised fund (DAF). DAFs are public charities that accept irrevocable gifts of cash or appreciated noncash assets from individuals and then distribute these funds to qualified nonprofit organizations, per the donor's recommendation. One particular benefit of using a DAF for your charitable giving is that it will allow you to accelerate multiple years of giving into one tax year, along with the option to spread out distributions to charities over multiple years.[2] In the meantime, any balance in your DAF account has the potential for tax-free growth, resulting in even more funds for your favorite charities.

DAFs assist donors with everything from facilitating the liquidation of appreciated noncash assets[3] (to potentially eliminate capital gains tax liability) to handling administrative tasks, such as recordkeeping. The structure is typically more cost-efficient and less time-consuming than establishing a private foundation, and DAFs still make it possible to involve additional family members to develop a multi-generational approach to philanthropy.

Make any adjustments

With just a few months left before the traditional year-end giving season, take the time to evaluate how your existing charitable strategies could be adjusted to be more beneficial as a result of the 2017 tax cuts. "Charitable giving remains a core value for many American families," says Brothers. "As tax laws change, tax-related gifting strategies may need to be adjusted. But the values and philanthropic legacy will persist." ■

Understanding the Impacts of the 2017 Tax Changes

Consider the following ways the new laws have influenced charitable giving.

Positive Impacts

- **Higher limits for cash donations.** Donors can take a deduction for cash donations of up to 60% of their adjusted gross income (up from 50%).
- **Lower tax rates.** With more discretionary income, donors will potentially have more to give.
- **Lower corporate tax rates.** Employers may be able to increase charitable matching programs and direct giving due to lower tax rates.
- **No Pease limits.** The original Pease legislation limited itemized deductions once a taxpayer's adjusted gross income exceeded a given amount. Eliminating this complex calculation should make it easier for donors to coordinate their charitable giving and tax planning.
- **Carryforwards still apply.** An unused deduction, credit, or loss can still be saved and used in a subsequent year.

Negative Impacts

- **Higher standard deduction.** Fewer taxpayers will benefit from itemizing deductions, which would include their charitable giving, making it important to reevaluate your charitable giving strategies moving forward.
- **Limits on other deductions.** Changes to other deductions, such as the cap on deductions for state and local taxes, make it even more likely that taxpayers will benefit most from the standard deduction.

[1]T. Rowe Price Charitable is an independent, nonprofit corporation and donor-advised fund founded by T. Rowe Price to assist individuals with planning and managing their charitable giving. [2]You will not receive a second charitable deduction at the time a grant is made from your DAF. [3]Examples include publicly traded securities, private stock, business interests, real estate, etc.

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