Are Annual Gifts a Thing of the Past?

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Earlier this year we talked about the possible impact of the Tax Cuts and Jobs Act (TCJA) on charitable giving. The “bumpy road” we suggested then seems to be even more uncertain now – thanks, in-part, to some accounting world advice.

A likely impact of the increase in the standard deduction to $12,000 and $24,000 (single and joint), plus the near elimination of the deduction for state and local taxes, will drop the number of itemizers in the US to something less than 10% (according to some estimates). Meaning fewer individuals will need to make a charitable donation to realize a tax savings. We have argued, however, that it is unlikely this will cause charitable giving to dry up. Folk will continue to give because, well, they have a charitable nature! But for many, any reduction of taxable income is a good thing. So, to capitalize on that undercurrent there seems to be a growing sentiment in certain financial sectors that individuals should be encouraged to “bunch” or “bundle” their gifts. Rather than make an annual contribution of a modest amount to their favorite charities, their advice is to wait and make a more substantial gift every three-five years that will cause their donation amount to rise above the new higher standard deduction level.

But here’s the rub – the sources we have read thus far are suggesting that donors should be encouraged to bundle their gifts and direct them to a donor-advised fund (DAF) or an irrevocable trust. Our question is simply, Why not bunch those gifts directly to the charities you have been giving to all along? There’s a lot of paperwork involved in establishing a DAF or trust – and even more paperwork to then move those dollars out and into their final charitable resting place. Our advice, then, is to recognize that this bunching advice is being given and get out in front of it – and encourage *our* donors to point this bunching in our direction!

This does, however, suggest that if we have annual donor recognition societies that we modify them in a way that will recognize a donor over a period of years rather than only the year in which they give. But our strategy with our donors is straight-forward – they gain the same recognition as they would if they issued annual grants through a third-party – but do so without the headache of creating a separate fund and filling out annual paperwork.

The above notwithstanding, some donors may heed the DAF or trust establishment advice. Therefore, we do need to be aware of this possible contribution shift and work closely with donors on tapping into those assets, rather than personal assets, to receive our share. The tax-deduction will not matter then and so we must do a far more convincing job of explaining the impact of the gift on the organization and society more so than on the “personal benefit.”