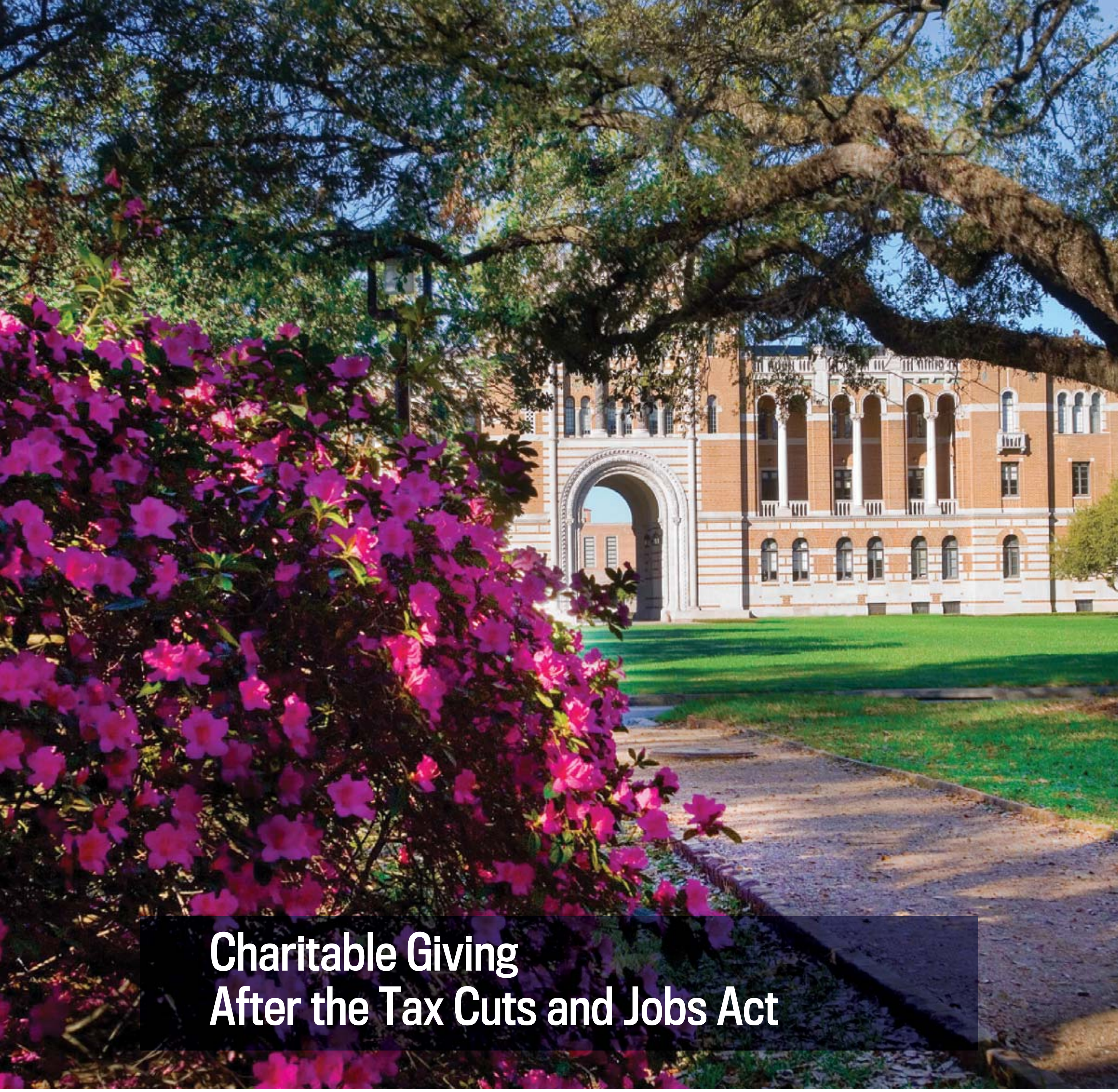

Charitable Giving After the Tax Cuts and Jobs Act

RICE

TO RICE BE TRUE

A Bold Gift Planning Initiative

Paying It Forward: Philanthropy Matters

Giving and the Tax Cuts and Jobs Act

In the fall of 2017, members of Congress and the President declared that they would complete tax reform by the end of the year. As the holidays approached, the House and the Senate reached an agreement on the Tax Cuts and Jobs Act (TCJA).

Fortunately, ***provisions in the new tax code impact charitable giving in favorable ways***, which means our friends and supporters will continue to enjoy the important tax benefits that accompany charitable gifts. This booklet is designed to highlight the key provisions of the TCJA and provide valuable information about how the new law influences charitable giving.

Nuts and Bolts: The Impact on Your Planning and Giving Strategy

The Tax Cuts and Jobs Act signed by President Trump cuts tax rates. How those tax cuts may affect your personal planning depends on family size, available deductions, and income. Here are the most notable changes that will begin to impact personal planning in 2018 and beyond.

- The standard deduction increases substantially and fewer people will need to itemize their taxes. Using the increased standard deduction, most taxpayers will enjoy a deduction that is equal to or greater than the deductions they would be eligible for if they itemized. The result? Taxpayers can continue to realize charitable giving goals and many donors will have more discretionary funds available for planning.
- The amount of charitable contributions made in cash that can be deducted in any particular year has been *increased* from 50% of adjusted gross income to 60% of adjusted gross income. This is particularly helpful for donors making a large, legacy-shaping gift.
- Capital gains tax can still be avoided through outright gifts of appreciated property.
- Gifts of retirement assets (including qualified charitable distributions from an IRA for those age 70½ or over) and life-income gifts (charitable gift annuities and charitable remainder trusts) remain especially attractive charitable giving options.
- The estate and gift tax exclusion has doubled.
- Donor Advised Funds are not affected by the new law, which means contributions to these funds continue to be deductible. Donors can select the timing and amounts of gifts that are made from the fund, just as they have in the past.

- The 3.8% net investment income tax remains in effect for high-income taxpayers, which means strategic charitable giving continues to be important for taxpayers subject to this additional tax.
- The alternative minimum tax (AMT) remains, but with a higher exemption amount.
- Corporate income tax rates are significantly reduced and certain pass-through entities will also enjoy a tax reduction.

Plan Now to Make a Tax-Free Gift from Your IRA in 2018

The new tax law passed in December 2017 did not change the popular gift option known as the IRA Charitable Rollover—a qualified charitable distribution from your IRA directly to Rice. This is good news for IRA owners age 70½ and over who want to support Rice and are subject to required minimum distributions from IRA accounts. You can use your IRA to make a meaningful gift and *avoid taxes on the IRA distribution*. It is easy to do.

- Instruct your IRA custodian to make a distribution directly to us by check. The distribution counts toward your required distribution.
- Although there is no tax deduction, the distribution is excluded from your income for federal tax purposes—no tax is due!
- Up to $100,000 of your annual gift qualifies for this favorable tax treatment. You may pay a pledge with an IRA charitable rollover gift.
- Your gift makes an immediate impact—there is no need to wait until the end of the year!
- To qualify for tax-free treatment of your distribution, you may not receive any goods or services (for example, gala tickets, improved game seating, etc.) in return for your IRA rollover gift.

For those who must take a required distribution, an IRA Charitable Rollover is a tax-wise strategy that many advisors believe can be the very best way to meet charitable giving goals. If you are planning an IRA Charitable Rollover or want to know more about these gifts, simply let us know. We'll be happy to work together to explore the many ways you can make an impact.

A Closer Look at the New Law

Rates
The TCJA kept the same number of individual tax brackets but lowered the rates and increased the ranges. These changes are applicable for tax years 2018-2025. The new brackets significantly address the "marriage penalty"

because the new married filing jointly brackets are now double the single brackets. In addition, income levels will rise more slowly than in the past because the TCJA bases annual adjustments for inflation on an index some argue more accurately reflects the actual rate of inflation.

Standard Deduction

The TCJA almost doubles the standard deduction to:

- $12,000 for individuals (up from $6,500)
- $18,000 for head of households (up from $9,550)
- $24,000 for married couples filing jointly (up from $13,000)

The rates will be indexed for inflation and are effective from 2018-2025.

Personal Exemption

The TCJA eliminates all personal exemptions. Before 2018, filers could claim a personal exemption for the taxpayer, the spouse, and each dependent. Beginning in 2018, taxpayers may no longer claim personal exemptions on their federal income tax returns. Fortunately, the elimination of the personal exemption is offset by a doubling of the child tax credit, from $1,000 to $2,000 for each dependent child under age 17.

SALT and Mortgage Interest Deductions

Two of the most controversial provisions of the TCJA are the changes to the state and local tax deduction (SALT) and the mortgage interest deduction. The TCJA keeps both deductions, with changes.

In prior years, taxpayers were allowed to deduct the full amount of state and local taxes (property taxes plus state income or sales taxes) from federal income tax returns. This unlimited deduction allowed taxpayers in states with high state tax rates to ease the burden of state taxes with the federal deduction. The final TCJA bill kept the state and local deduction, but capped it at $10,000.

The 2017 law permitted taxpayers to take a deduction for interest paid on a mortgage or a debt up to $1,000,000. The TCJA kept the mortgage interest deduction but lowered the cap to $750,000. The TCJA also eliminated the mortgage interest deduction for home equity loans.

Capital Gains Tax and the Net Investment Income Tax

The TCJA changed neither the capital gains tax rate nor the net investment income tax rate. However, the capital gains tax brackets are no longer aligned with the individual income tax brackets. For example, the top capital gains rate of 20% no longer lines up with the top income tax bracket, but instead has its own threshold that falls in the middle of the 35% bracket.

Pease Limitation

The TCJA repeals the "Pease" limitation, which phased out the itemized deductions for individuals whose income exceeded certain dollar limits.

Estate and Gift Taxes

Despite rumors that Congress was going to repeal the estate tax (and such rumors seem to surface with every Congressional tax discussion), the federal estate tax lives on in 2018. However, the TCJA made a significant impact on estate and gift taxation by doubling the exclusion amount, from a base of $5 million in 2017 to a base of $10 million in 2018. With the adjustment for inflation, that rises to over $11 million for 2018. When a married couple uses spousal portability, the exempt amount rises to over $22 million.

A doubling of the estate and gift tax exclusion removes the issue of federal estate taxes for all but a very few individuals. Even for those few who are affected, however, more wealth can be transferred to heirs free of estate and gift taxes, effectively freeing funds for charitable purposes.

Five Guidelines for Giving After TCJA

1. **Continue to be mission driven.** Giving makes an important difference no matter how taxes affect you.
2. **Think about giving appreciated property.** Making a gift with long-term appreciated stock or real estate can be a tax-wise alternative to a gift of cash. Donors avoid the capital gains tax on the appreciation by giving the property, and the full amount of the gift makes an immediate impact. Nothing is lost to taxes, and the full value of the stock is deductible if you itemize.
3. **Consider an IRA Charitable Rollover.** If you are an IRA owner age 70½ or over, a charitable distribution from your IRA can be a smart, simple way to meet philanthropic goals. The gift (up to $100,000 annually) counts toward your required minimum distribution, and no income tax is due.
4. **Take your long-term strategy into account.** Maximizing the gifts you make in a particular year (referred to by some as "bunching") can

provide you with deductions that exceed the standard deduction and reduce taxable income.

5. **Don't forget revocable gifts.** This option lets you plan now, retain use of your assets, and make a substantial gift in the future. Some examples include beneficiary designations and gifts through your will or trust.

Planning a Gift under the New Law

The TCJA made big changes to the income tax landscape—changes that will let most people keep more of the money they earn. This means donors can confidently move forward with charitable giving traditions and commitments. And for our supporters who are considering large gifts, it means charitable giving can play an even greater role in tax-wise planning strategies.

Please let us know how we can assist you and your advisors in exploring charitable giving strategies under the new law. Your continued support of the Rice mission has a lasting impact on our students, faculty, staff and campus. We consider it our privilege to help you shape your personal philanthropic legacy.

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