



Tax Law Changes and Not-for-Profits

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Tax Cuts and Jobs Act: Individual taxpayers

Increase in standard deduction and elimination of personal exemptions

- ▶ Single \$12,000 (2017 – \$6,350)
- ▶ Head of household \$18,000 (2017 – \$9,350)
- ▶ Married filing jointly (MFJ) \$24,000 (2017 – \$12,700)
- ▶ If age 65 and/or blind – additional standard deduction of \$1,300 if married, \$1,600 if unmarried (2017 – \$1,250/\$1,550)
- ▶ Personal exemptions were \$4,050 each in 2017, subject to phaseout at higher incomes

Tax Cuts and Jobs Act: Individual taxpayers

Changes to itemized deductions

- ▶ 3% phaseout is repealed through 2025
- ▶ Medical expenses subject to 7.5% AGI hurdle (reverts to 10% in 2019)
- ▶ Mortgage interest deduction limited to \$750,000 of acquisition debt incurred after December 15, 2017
 - Allowed for principal and second residence
 - Home equity loan interest no longer allowed as a deduction
 - Refinanced mortgages are grandfathered at \$1 million as long as balance is not increased

Tax Cuts and Jobs Act: Individual taxpayers

Changes to itemized deductions

- ▶ State income and real estate taxes
 - Combined deduction limited to \$10,000
- ▶ Charitable contributions
 - Adjusted Gross Income (AGI) limitation increased to 60% (was 50%)
- ▶ All 2% miscellaneous deductions disallowed (through 2025)
 - Tax prep fees, investment fees, unreimbursed employee business expenses
- ▶ Repeal of personal casualty/theft losses other than those associated with Presidentially declared disasters

Married Filing Joint Tax Rates

2017	
TAXABLE INCOME:	TAX RATE:
\$1 – \$18,650	10%
\$18,651 – \$75,900	15%
\$75,901 – \$153,100	25%
\$153,101 – \$233,350	28%
\$233,351 – \$416,700	33%
\$416,701 – \$470,700	35%
Over \$470,700	39.6%

2018	
TAXABLE INCOME:	TAX RATE:
\$1 – \$19,050	10%
\$19,051 – \$77,400	12%
\$77,401 – \$165,000	22%
\$165,001 – \$315,000	24%
\$315,001 – \$400,000	32%
\$400,001 – \$600,000	35%
Over \$600,000	37%

Single Tax Rates

2017	
TAXABLE INCOME:	TAX RATE:
\$1 – \$9,325	10%
\$9,326 – \$37,950	15%
\$37,951 – \$91,900	25%
\$91,901 – \$191,650	28%
\$191,651 – \$416,700	33%
\$416,701 – \$418,400	35%
Over \$418,400	39.6%

2018	
TAXABLE INCOME:	TAX RATE:
\$1 – \$9,525	10%
\$9,526 – \$38,700	12%
\$38,701 – \$82,500	22%
\$82,501 – \$157,500	24%
\$157,501 – \$200,000	32%
\$200,001 – \$500,000	35%
Over \$500,000	37%

Tax Cuts and Jobs Act: Individual taxpayers

Enhancement of Child Tax Credit and New Family Credit

- ▶ Child Tax Credit increased to \$2,000 (2017 – \$1000) per qualifying child who has not attained age 17 during the tax year
 - Up to \$1,400 is refundable
- ▶ New Family Credit of \$500 for qualifying dependents other than qualifying children under 17
 - Non-refundable
- ▶ AGI phaseout levels significantly increased
 - \$400,000 for MFJ (2017 – \$110,000)
 - \$200,000 for all other taxpayers (2017 – \$75,000)

Tax Cuts and Jobs Act: Individual taxpayers

Miscellaneous other provisions

- ▶ Modifications to Alternative Minimum Tax (AMT)
 - AMT exemption is increased to \$109,400 from \$84,500 MFJ (\$70,300 from \$54,300 Single)
 - Exemption phaseout range starts at \$1 million of AMT taxable income, up from \$161,000 (\$500,000 from \$121,000 Single)
- ▶ Estate and gift tax
 - Lifetime exclusion doubled to \$11.2 million starting in 2018

Strategies for Individuals

- ▶ Alternate year itemizer
 - Give in one year for a period of 2/more years – but this take available cash!
- ▶ Community foundations or brokerage houses
 - Donor advised funds
- ▶ Gift of appreciated stock
 - Avoid paying tax on gain on sale, and deduct value of stock
- ▶ Giving, net of tax rate
 - Charity gets less, but at least donor is still giving

Strategies for Individuals

- ▶ Donation distributed directly from IRA
 - Donor must be 70 ½ to give. Limit is \$100,000 per year per person.
 - Giving is allowed from traditional or Roth IRAs, must be payable from the IRA trustee to an eligible public charity
 - RMDs are required starting at age 70 ½ - so individuals can direct their RMD to the charity – the distribution is not taxed
 - Excludes gifts to donor advised funds and private foundations.
 - Not available from 401k, 403b, pensions or profit sharing plans.
 - WI will allow this treatment starting in 2018
- ▶ Planned giving
 - Bequests or life insurance beneficiary, charitable gift annuities and remainder trusts

Challenges for Not-for-Profits

- ▶ Budgeting and Cash Flow
 - 12 month model, 3-5 year model
- ▶ Time restrictions
 - Are there explicit or implicit time restrictions made by donor
 - If no donor restriction, will Board designate funds for future year
- ▶ Compliance requirements
 - State of WI requires an audit when donations exceed \$500k, and a reviewed financial statement when donations exceed \$300k
- ▶ Competition
 - Donor memory
 - Non-qualified organizations or individuals

Tax Cuts and Jobs Act: Individual taxpayers

Example #1 – \$110,000 of wage income

		2017		2018
Adjusted Gross Income		110,000		110,000
Itemized Deductions				
Real estate taxes	5,000		5,000	
State income taxes	9,000		5,000	
Mortgage interest	2,400		2,400	
Charitable contributions	2,000		2,000	
Greater of itemized or standard		18,400		24,000
Personal exemptions – 4		16,200		-
Taxable income		75,400		86,000
Tax		10,378		10,799
Child tax credit – 2 kids, no phaseout		2,000		4,000
Net tax		8,378		6,799
Percent decrease	18.85%			

Tax Cuts and Jobs Act: Individual taxpayers

Example #2 – \$310,000 of wage income

		2017		2018
Adjusted Gross Income		310,000		310,000
Itemized Deductions				
Real estate taxes	8,000		8,000	
State income taxes	24,500		2,000	
Mortgage interest	-		-	
Charitable contributions	3,000		3,000	
Greater of itemized or standard		35,500		24,000
Personal exemptions – 4		16,200		-
Taxable income		258,300		286,000
Tax		60,456		57,219
AMT Tax		8,315		-
.9% Medicare tax		540		540
Child tax credit		-		4,000
Net tax		69,311		53,759
Percent decrease	22.44%			

Tax Cuts and Jobs Act: Individual taxpayers

Example #3 – Dividend income and lots of itemized deductions

		2017		2018
Adjusted Gross Income		131,416		131,416
Itemized Deductions				
Real estate taxes	37,509		10,000	
State income taxes	1,356		-	
Mortgage interest	-		-	
Charitable contributions	2,391		2,391	
2% misc deductions	60,393		-	
Less: phaseout	-		-	
Greater of itemized or standard		101,649		24,000
Qualified Business Income Deduction		-		-
Personal exemptions – 2		8,100		-
Taxable income		21,667		107,416
Tax		2,319		9,037
AMT Tax		-		-
.9% Medicare tax		-		-
Child tax credit		-		-
Net tax		2,319		9,037

Impact of 2017 Tax Reform Act on Not-for-Profits

Compute unrelated business taxable income (UBTI) separately for each unrelated trade or business

- ▶ Deductions or operating losses from one activity cannot be used to offset the income of another activity.
- ▶ There is a transition rule that pre-existing net operating losses can offset future income from any of the organization's unrelated activities.
- ▶ Effective for years beginning after 12/31/17

Impact of 2017 Tax Reform Act on Not-for-Profits

Certain fringe benefits that are non-deductible are included as UBTI

- ▶ The value of transportation, parking facilities and on-premises athletic facilities provided to employees are included in UBTI.
- ▶ These benefits are not deductible for taxable entities, so this provision provides parity between exempt organizations and taxable entities.
- ▶ Effective for years beginning after 12/31/17.

Impact of 2017 Tax Reform Act on Not-for-Profits

Impose a 1.4% excise tax on the investment income of certain private colleges and universities

- ▶ Applies to college and universities with at least 500 students and that have non-exempt assets (assets not used directly in carrying out the exempt purposes) of at least \$500,000 per full-time equivalent student.
- ▶ Assets and income of related organizations are also treated as assets and investment income of the college or university.
- ▶ Effective for years beginning after 12/31/17.

Impact of 2017 Tax Reform Act on Not-for-Profits

Impose a 21% excise tax on any compensation in excess of \$1 million paid to each of the 5 highest paid employees.

- ▶ Once the excise tax is paid for an employee, it is paid on compensation over a \$1 million for the employee.
- ▶ Tax is paid by the exempt organization and applies to all wages of the employee (including non-cash benefits).
- ▶ Effective for years beginning after 12/31/17, but the 5 highest paid employees in 2017 would be subject to the excise tax in 2018 if their compensation is over \$1 million.



THANK YOU!

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