Catholic Finance CORPORATION
Financial Advisor to Catholic Institutions

UPDATE

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Tax Reform Bill Potential Impact for Churches and Other Charitable Organizations

In the Archdiocese of St. Paul and Minneapolis a parish can expect to collect about 80% of total operating income from contributions. That is to say, "plate and envelope" make up approximately 80% of total operating income. Since this one revenue item is such a key revenue driver for a parish any potential change in how parishioners give can be a tremendous opportunity or can create some possible vulnerabilities in the church budget. In December of 2017 Congress passed a tax reform bill that included several changes to individual tax deductions/exemptions such as: effectively doubling standard deductions to $12,000 for single filers and $24,000 for joint filers, repealing personal exemptions, limiting mortgage interest deductions and doubling the estate tax exemption. One change that has the potential to impact parishes and other nonprofits is the doubling of the standard deduction.

According to the IRS, 29.5% of all tax returns filed for Tax Year 2015 claimed itemized deductions. State and local taxes made up 45% of itemized deductions followed by interest paid (primarily mortgage interest) at 24.5% and charitable contributions at 16.7%. Further, Minnesotans on average claimed a mortgage interest deduction of $2,088 on their 2015 returns. The National Center for Charitable Statistics shows 85% of Minnesota taxpayers that itemized on their tax return claimed an average of $3,570 in charitable contributions as a tax deduction in 2013. In Minnesota the percentage of returns that claimed itemized deductions was 36% in 2013 according to IRS Statistics of income. The higher the income of a taxpayer the higher the likelihood to itemize. In 2013 77% of taxpayers with income of $100K to $200K itemized their tax deductions.

What does this mean for churches? Minnesotans itemize at a higher rate than the national average and 85% of Minnesotans that itemize claim a deduction for charitable contributions. As more taxpayers claim the standard deduction, instead of itemizing, two questions may cross their mind: 1.) Can I change the way I give charitably to ensure I get a deduction? 2.) Do I change how and when I give altogether? Both of these questions can create opportunities or vulnerabilities to parishes depending on how givers respond.

In 2010 about 4.4% of individual charitable giving utilized donor advised funds as a mechanism for distributing these gifts. By 2016 that percentage had steadily climbed to 8.3%. With the new tax law many speculate the acceleration of participation in donor advised funds to make charitable contributions. One primary reason is that donor advised funds allow a donor to take cash, appreciated stock or other assets and deposit them in the fund and take the tax deduction upon deposit while allowing the distribution of those funds to be made over time.

For example, a parishioner filing jointly who has $10,000 in state/local taxes, $5,700 in mortgage interest expenses and gives $4,600 each year to charity will now be better served taking the standard deduction of $24,000 whereas in years past, they would have itemized. Under the new tax bill, if they take $23,000 of appreciated stock or other assets and put it into a Donor Advised Fund in 2018 they could itemize $38,700 in deductions this year and take the standard deduction each of the next 4 years. This would result in larger total deductions over the next five-year period. An example of this is shown on the next page.

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	2018	2019	2020	2021	2022	
State/local taxes	10,000	10,000	10,000	10,000	10,000	
Mortgage interest	5,700	5,700	5,700	5,700	5,700	
Charitable giving	4,600	4,600	4,600	4,600	4,600	
Total Itemized Deductions	20,300	20,300	20,300	20,300	20,300	
Standard deduction	**24,000**	**24,000**	**24,000**	**24,000**	**24,000**	
Claimed Deductions						**120,000**
State/local taxes	10,000	10,000	10,000	10,000	10,000	
Mortgage interest	5,700	5,700	5,700	5,700	5,700	
Donor Advised Fund	23,000	0	0	0	0	
Total Itemized Deductions	**38,700**	15,700	15,700	15,700	15,700	
Standard deduction		**24,000**	**24,000**	**24,000**	**24,000**	
Claimed Deductions						**134,700**

One financial advisor we spoke with told us he is advising 98% of his clients to consider setting up a donor advised fund. His clients are doing this to save on taxes and build up monies that can be given away to charity. This advisor said the amazing side benefit to this process is that once his clients begin giving from the donor advised fund they give more!

Locally, we are seeing this very much play out as described above. The Catholic Community Foundation of Minnesota saw the number of new donor advised funds go up 56% in fiscal 2018 through January with five months left in the fiscal year. In December of 2017 they reportedly had 125% more donor advised funds set up than they did in December of 2016.

What can parishes do with this information?

1. Keep track of which parishioners are utilizing donor advised funds and track when and how they contribute to your parish. Several parishes we work with had sizable donors make their entire 2018 donation to the parish in December or January.
2. Educate yourself about Donor Advised Funds. Catholic Community Foundation of Minnesota is a great resource to help you begin your education. Visit www.ccf-mn.org to learn more.
3. Encourage the exploration of donor advised funds to parishioners that have historically itemized. They may benefit from a tax perspective, you may benefit from the proceeds of the donor advised fund and if they are like others that utilize this vehicle, their donations may trend upward as they learn how to take full advantage of the vehicle.

The above article is not intended as legal, tax, or financial advice. Please seek advice regarding this topic from a qualified attorney, tax advisor or personal financial planning professional.

Bituminous Roadways has developed some educational pieces on their website that may be of value to parishes. Please click on this link to learn more http://bitroads.com/Customer-Education or call Jason Krause directly at (651) 686-7001 for specific questions regarding parking lots or other hard surfaces.

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