



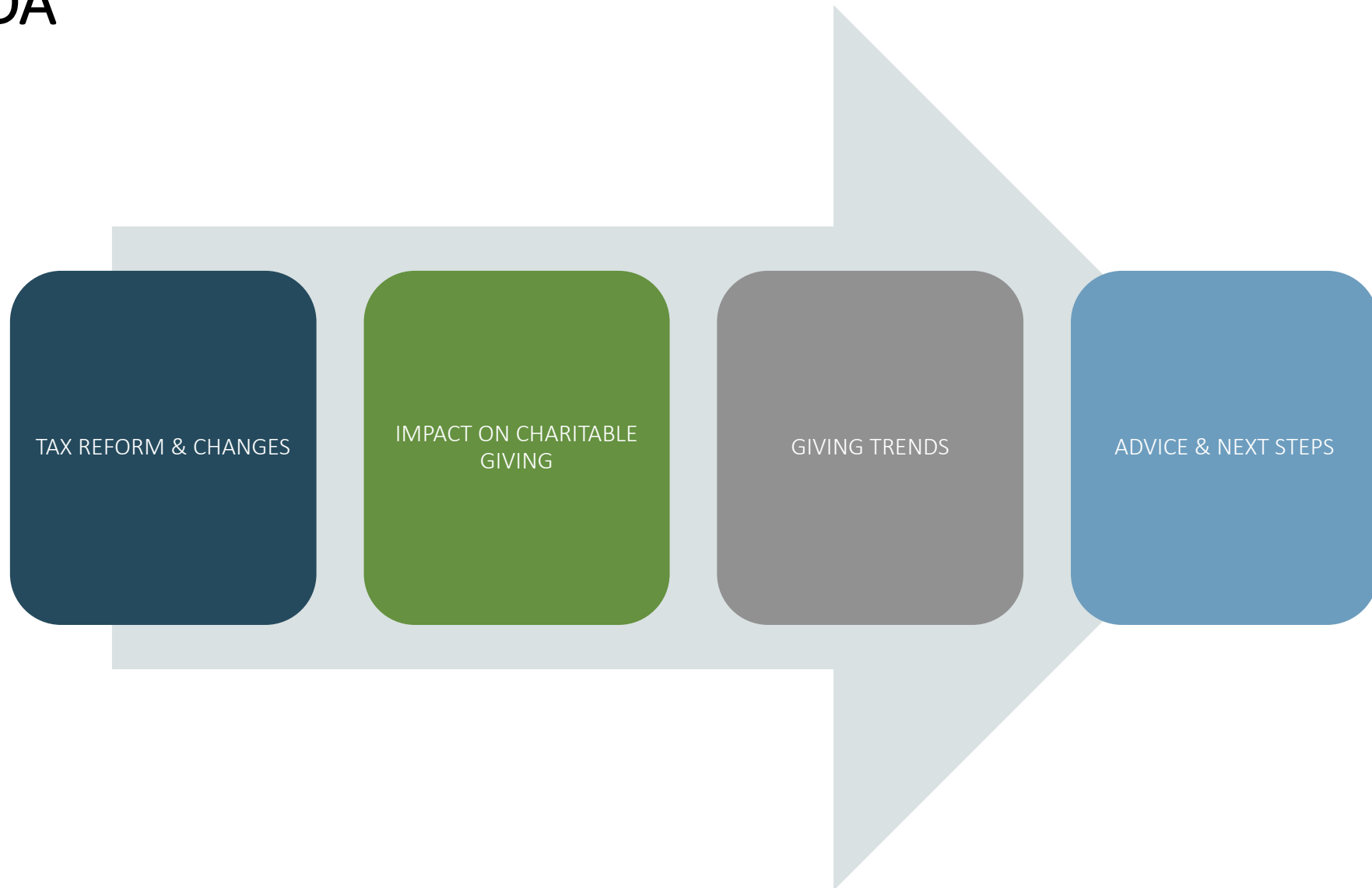
perspective
GAINED

How 2018 Tax Changes Affect You

Barb McGuan, BerryDunn
Joe Pratt, Bar Harbor Trust Services



AGENDA



PRESENTERS

Barb McGuan

Barb is the leader of the firm's Not-For-Profit Tax Services Group. She serves clients in a variety of industries, but her main focus is with tax-exempt organizations.

Although a large portion of her career has been devoted to public accounting, Barb also has experience as the financial manager of a private healthcare consulting firm. She regularly speaks at seminars of local organizations and groups regarding not-for-profit and other tax compliance issues.

Barb is a Principal and member of the firm's Tax Consulting and Compliance Group, working with clients throughout New England. She provides services mainly in the tax planning and compliance arena, including business and individual taxation as well as tax-exempt reporting.

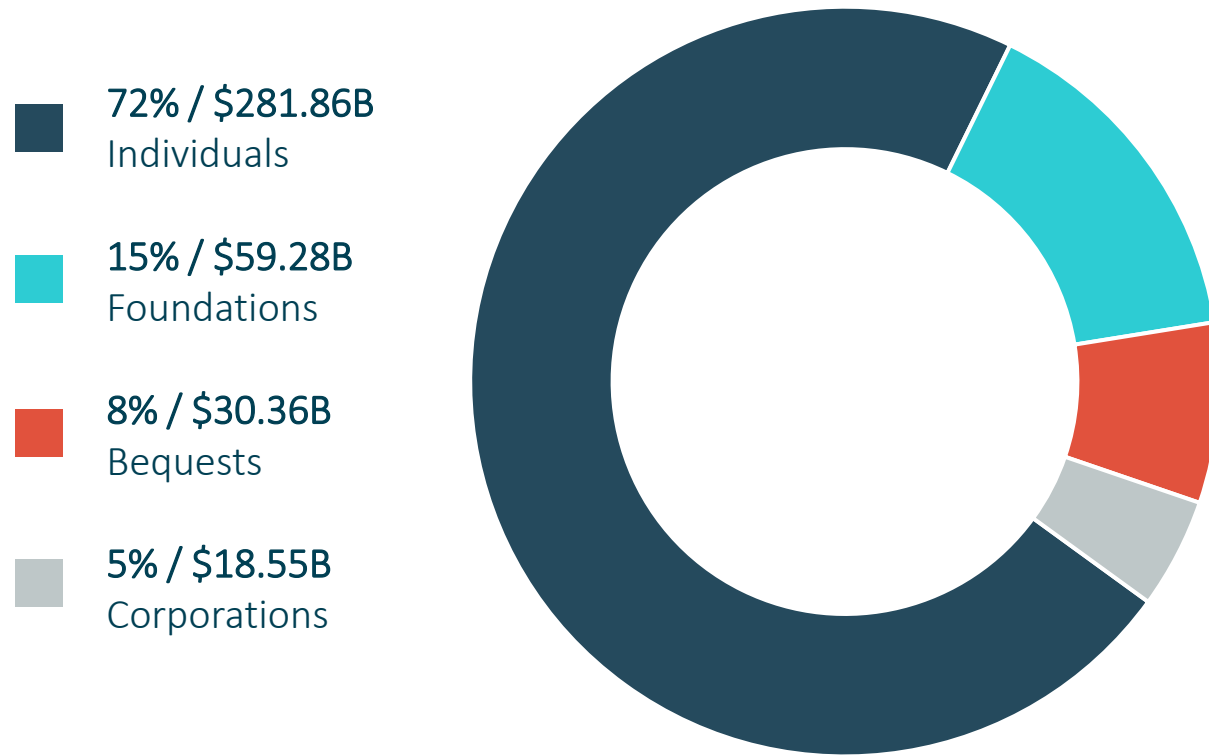
Joe Pratt

Joe leads the 'wealth services group' at Bar Harbor Bank & Trust (BHBT) including Bar Harbor Trust Services and Bar Harbor Financial Services in Maine and Charter Trust Company in New Hampshire. Together the wealth services group is responsible for more than \$2 billion in assets with more than 2,000 clients.

The wealth services group provides charitable consultation for individuals, private foundations and public charities throughout and northern New England.

Joe helps individual donors realize charitable goals with planned gifts and assisting nonprofit organization establish or improve their planned giving programs. Joe is the founding president of the Maine Planned Giving Council and is a frequent presenter for MANP and AFP-NNE.

In 2016, Americans Gave \$390.1 Billion!



*Greater than the corporate tax revenue collected by the federal government

Overall Distribution Remained Steady



\$122.9B (32%)
Religion



\$29.9B (8%)
Public Society



\$59.8B (15%)
Education



\$18.2B (5%)
Arts, Culture & Humanities



\$46.8B (12%)
Human & Social Services



\$22.0B (6%)
International Affairs



\$40.6B (10%)
Foundations



\$11.1B (3%)
Environmental & Animal Welfare



\$33.1B (8%)
Health

All Nine Subsectors Realized Growth!



▲ 3.0%
Religion



▲ 3.07%
Public Society



▲ 3.6%
Education



▲ 6.4%
Arts, Culture & Humanities



▲ 4.0%
Human & Social Services



▲ 5.8%
International Affairs



▲ 3.1%
Foundations



▲ 7.2%
Environmental & Animal Welfare



▲ 5.7%
Health

Maine Snapshot *(See Handout)*



Population: **1.33 million**

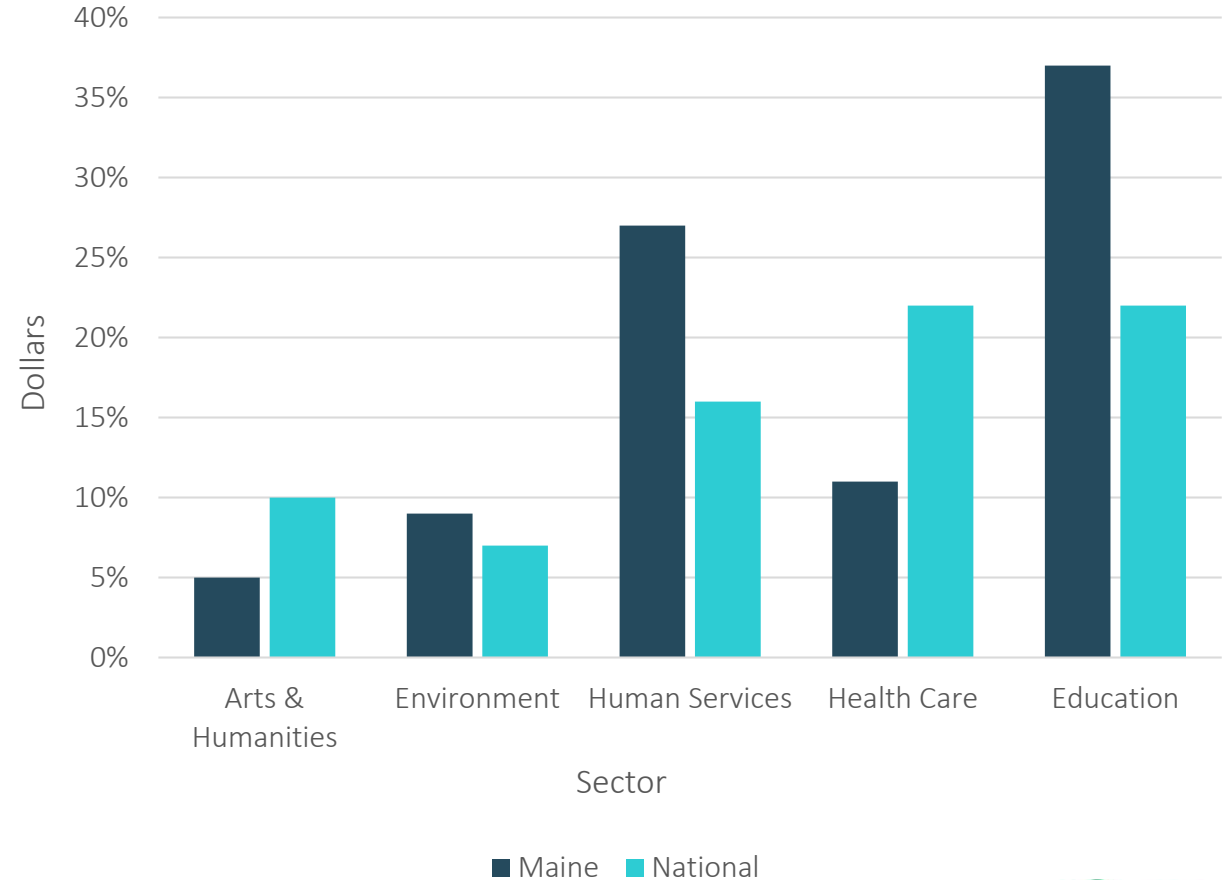


Individuals give an average of **2.13%** of their annual income to charitable causes¹



There are **8,508** registered non-profit organizations in Maine³

Proportion of Giving, Maine vs. National in 2014



GIVING TRENDS

HISTORICALLY, MISSION AND IMPACT DRIVE CHARITABLE GIVING

According to the 2016 U.S. Trust Study of High Net Worth Philanthropy, high net worth donors reported they would **always** give for the following reasons:

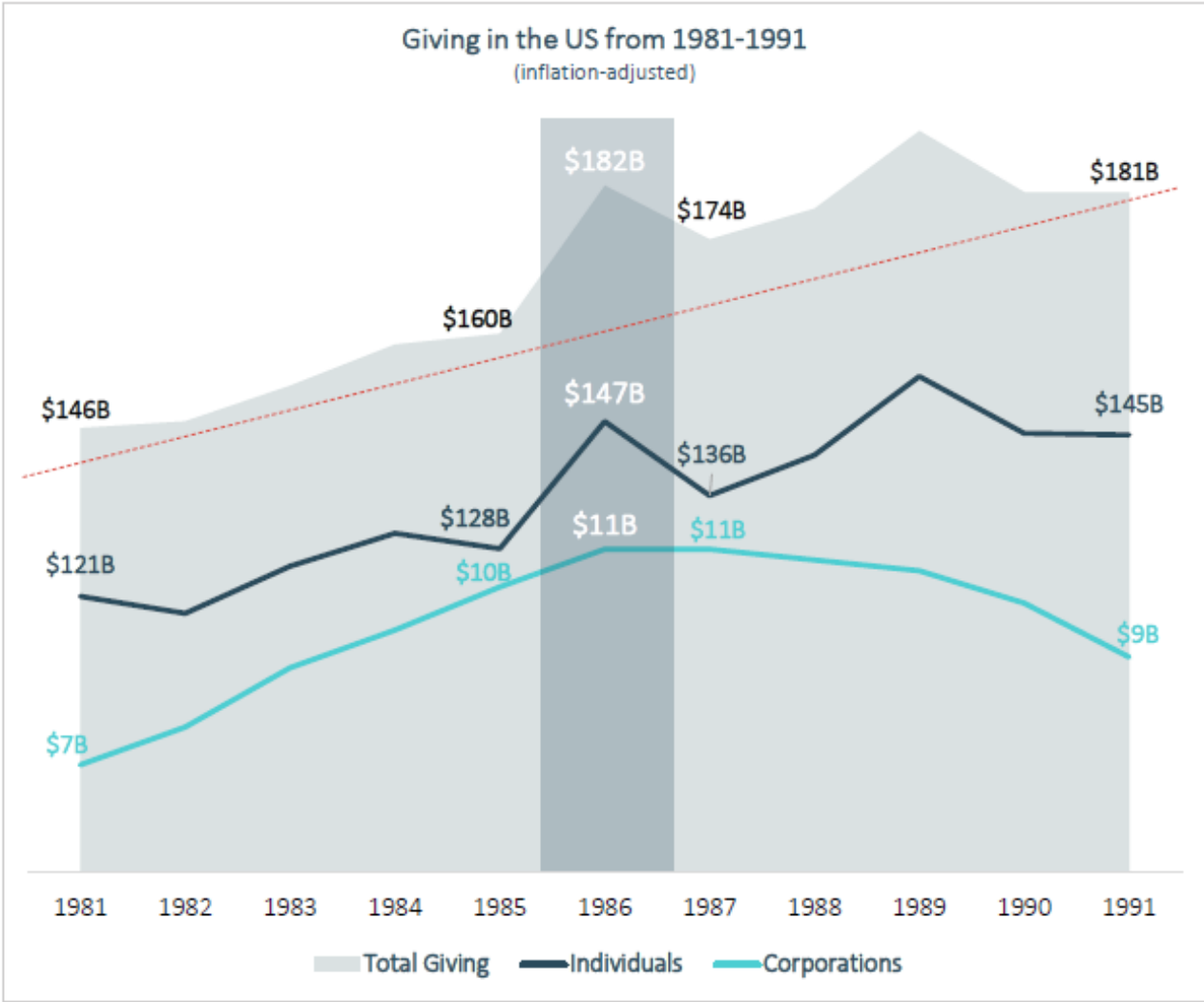


CCS Research

Impact of Gift	89%
Ability to Give	78%
Religious/Moral Obligation	68%
Strengthen Local Community	65%
Being Asked	60%
Tax Benefit/Financial Relief	36%

Despite the focus on the tax law and its implications, tax benefits and financial relief consistently rank at the bottom of the list of why people give.

GIVING TRENDS



TAX REFORM CHANGES

- Ordinary income tax rates reduced for 2018-2025:
 - Prior: 10%, 15%, 25%, 28%, 33%, 35%, 39.6%
 - New: 10%, 12%, 22%, 24%, 32%, 35%, 37%
 - Capital gains and qualified dividend tax rates did not change
 - Trusts/Estates New: 10%, 24%, 35% & 37%
- Estate/gift tax exemption to \$11.4 million in 2019 (indexed for inflation annually through 2025)
- State and local tax itemized deduction limited to \$10,000 (income, property, sales & use taxes) in 2018-2025



TAX REFORM CHANGES

STANDARD DEDUCTION increases for 2018-2025:

- Married filing jointly 2017: \$12,700 New: \$24,000
- Head of household 2017: \$9,350 New: \$18,000
- All others 2017: \$6,350 New: \$12,000

Example:

Jane is a single taxpayer and had a standard deduction limit of \$6,350 in 2017, but her itemized deductions added up to \$11,000 which included \$5,000 of charitable contributions. Jane chooses between itemized deductions or the standard deduction, whichever is more. So in 2017 Jane used itemized deductions (\$11,000) instead of the standard (\$6,350) deduction on her tax return. Now, in 2018, her standard deduction will be \$12,000 and her itemized are still \$11,000 (which again includes \$5,000 to charity). It no longer matters if she contributes the \$5,000 to charity as her standard deduction is \$12,000 under the new law even if she gives zero to charity – so her tax incentive to give to charity has been eliminated.

ADDITIONAL MODIFICATIONS

- Cash contributions made in 2018-2025 to public charities and certain private foundation now have a 60% (rather than 50%) of AGI limitation – 5 year carryforward for excess still available.
- Pease limitation repealed through 2025 – higher income taxpayers were previously subjected to a 3% reduction in total itemized deductions for amounts over a certain threshold.
- Charitable deduction no longer allowed for any payment to an institution of higher education in exchange for the right to purchase tickets or seating at an athletic event (prior allowed 80% deduction).

WHAT WILL BE THE IMPACT ON CHARITABLE GIVING ?

- What are you hearing from your supporters?
 - Is tax benefit a significant reason for their support?
 - Is tax benefit a significant reason for your support?
 - If they can't deduct will they still give?
- What was your experience in 2018?
 - Annual Appeal?
 - Capital Campaign?
 - Other?
- What steps, if any, have you or will you take to respond?



POTENTIAL NEGATIVE IMPACT

“The tax reform act will reduce the incentive for charitable giving by . . .”



POTENTIAL NEGATIVE IMPACT

Total giving could fall by \$13 billion, or 4.5%, in 2018.

- Higher standard deductions and new limits on other deductions, such as for state and local taxes, will lead to a significant decrease in the number of itemizing tax payers
- Currently, about 30% of tax payers itemize and are responsible for over 80% of total giving
- The percentage of itemizers is predicted to fall as low as 5%, which could lead to a significant decrease in total giving

Nonprofits that rely heavily on middle-class donors are concerned.

- Smaller donations from middle-class households often go to social-service and religious organizations, while bigger gifts from wealthier donors have historically gone to higher education and arts and cultural organizations
- Worry that philanthropic giving may soon be a pursuit largely left to the wealthy

Less knowledge and data on giving – much of philanthropy data pulled from tax returns with itemized deductions

Source: Nonprofits Brace for Budget Fight, *Chronical of Philanthropy*; Tax Law Eliminates Giving Incentive for 21 million Americans, *Chronical of Philanthropy*

POTENTIAL POSITIVE IMPACT

“The tax reform act increases the incentive for charitable giving by . . .”

- Repealing the Pease limitation on itemized deductions
- Increasing the charitable contribution deduction AGI limitation
- Wealthy donors may increase their cash gifts. Donors that continue to itemize can now contribute up to 60% of their adjusted gross income to charity, up from 50%
- Only the ultra wealthy will be subject to estate tax under the new law, which may incentivize high net worth donors to make large gifts during their lifetimes to obtain an income tax charitable deduction
- Lower tax rates may result in more cash donations to charities. As the tax rates for the majority of tax brackets are lowered, many people will find themselves paying less in taxes and enjoying more discretionary income that can be spent, saved, or donated to charity.

NEXT STEPS

- Educate staff and volunteers on basics of the bill, but don't fixate on tax.
(It's likely one of the least important reasons they give.)
- Be prepared to discuss positive aspects of the new tax legislation – if asked.
- Emphasize your organization's positive impact; the “**why**” your donors support you
- Seek out champions for philanthropy and tell their story

Source: Nonprofits Brace for Budget Fight, *Chronical of Philanthropy*; Tax Law Eliminates Giving Incentive for 21 million Americans, *Chronical of Philanthropy*

Questions & Discussion

