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**2017-2018**

**ALA Executive Board**

**Spring Meeting**

**TO:** ALA Executive Board

**SUBJECT:** Potential Impact of the 2018 Tax Law on Fundraising at ALA

**ACTION REQUESTED:** Discussion

**REQUESTED BY:** Sheila O’Donnell, Director, ALA Development

**DATE:** 17 April 2018

**BACKGROUND:**

Tax legislation passed in late 2017 touches many aspects of ALA operations. Of the potential impacts, the impact of changes to rules related to itemized deductions raised the most immediate questions.

The Association of Fundraising Professionals has produced a development-focused analysis of the new tax law. It is attached, with ALA-specific analysis from Sheila O’Donnell, Director, ALA Development.

**Projected Impact of the 2018 Tax Law on Fundraising at ALA**

Background

The attached document is a statement from the Association of Fundraising Professionals, outlining their opinion about the impact of the new tax code on fundraising in the US. In expanding the ALA Development Office, we already have in place many of the recommendations outlined by AFP. Here are some of the specific ways their recommendations relate to ALA Development activities:

1. We are directly following their first recommendation, to **focus on major donors**. Increased capacity in the form of a new Major Gifts Officer and staff focused on Prospect Research will allow us to deepen our work in major gifts and take advantage of tax laws benefitting the wealthiest.
2. Increased fundraising staff will give us more capacity to explore potential corporate partners.
3. Most people already don’t itemize their taxes, especially those who are making smaller gifts. Our average gift from an individual is hovering around $50, and the number of donors who give this amount has been growing steadily, which means that revenue from this segment is on track to just keep getting bigger at ALA.
4. ALA currently has very few donors who give at the $1,000 - $5,000 range. The new Major Gift Officer will help us to define a strategy to focus on this group. In general, increased fundraising capacity leads to more donations. We have every reason to believe that will continue to be the case here at ALA.
5. The planned giving work begun by the last Development Director continues to bear fruit, and can be coupled with efforts to encourage donors to think about more complicated vehicles, including stocks, direct IRA rollover, and other options. We have built in capacity to create a new planned giving prospect list and will continue to fundraise for planned gifts.

The first rule of fundraising is that if you want money, you have to ask for it. The capacity of the ALA Development Office to ask for money has been very limited. Increasing the number of staff and resources to support fundraising efforts in the areas of major gifts, annual fund and gift processing will allow us to ask more and raise more money for the Association. Because we are building capacity and infrastructure, we don’t anticipate that the tax law will negatively impact our fundraising returns.

**The Association of Fundraising Professionals published the following statement on the 2018 tax law on their website:**

**Source: http://www.afpnet.org/Audiences/PublicPolicyIssueDetail.cfm?ItemNumber=48097**

**How to Approach Fundraising in 2018**

The new tax reform bill, signed into law late in 2017, has created quite the stir in the fundraising profession and the nonprofit sector. It’s a massive bill affecting all aspects of American society, including the charitable sector, and will impact our donors in many diverse ways. Opinions abound—more income for donors will increase giving; a doubling of the standard deduction will reduce giving. Which one is right? Are they both right?

There’s no way, at this point, to say with any certainty exactly how any one donor is going to respond. There are simply way too many variables in a typical giving situation, and the new tax bill has just increased those.

So, what to do? We’ll start with some general thoughts and idea, and then talk about specific guidance to consider as we examine fundraising in 2018.

**Some of It is Just Temporary**

Yes, perhaps the most challenging part of the whole bill: the individual tax cuts, every single one, expire on Dec. 31, 2025. This was done in order to meet Senate rules about spending and not adding to the deficit beyond a ten-year budget window. Corporate tax cuts are permanent, however. Keep that in mind.

**More Discretionary Income**

Some groups of people will definitely have more to give. Donors in the richest one percent of the U.S. population—those making more than roughly $700,000—will see a 2.2 percent increase in after-tax income. Middle-class taxpayers will likely see an increase of 1 to 1.5 percent, on average.

But that impact is not across the board. Not everyone in the middle class will see a tax cut, due to lost deductions or exemptions, and many of the individuals tax cuts get narrower and narrower as the tax plans unfolds, limiting benefits in successive years. Bottom line: There will be lots of change, and every donor situation is going to be unique.

**Doubling of the Standard Deduction**

The standard deduction was doubled for all taxpayers, with married couples filling together seeing a standard deduction of $24,000, not $12,000. So now the threshold to be able to take advantage of the charitable deduction (or any itemized deduction) is that much higher. Research from the Joint Committee on Taxation estimates that nearly 30 million taxpayers will no longer itemize their taxes and instead use the standard deduction. That change will eliminate nearly $100 billion in itemized contributions.

Now, of course, that does NOT mean giving will drop by $100 billion! That’s just the amount of itemized contributions that will no longer be able to be itemized in 2018. Research by the Tax Policy Center, and from The Lilly Family School of Philanthropy and Independent Sector, estimates the drop in giving will be in the $12 – 20 billion range annually.

It goes without saying that people do not give charitable donations simply because of the tax deduction. People give because they are generous and believe in the missions of the organizations that they support. But it’s also clear tax incentives DO have an impact on how much is given, and in some cases, can have a significant impact, especially as gifts get larger.

For example, in 2010, when the estate tax was temporarily repealed, gross charitable bequests in IRS tax filings totaled $7.49 billion -- a 37 percent drop from $11.9 billion the previous year. The tax returned in 2011, and charitable bequests soared to $14.36 billion. (The new tax bill increases the estate and gift tax exemption to roughly $11 million for individuals and $22 million for couples, adjusted for inflation.)

**Other Tax Changes**

Donor in high-property tax, high-income states could be hit hard by a new cap ($10,000) on deductions for local property taxes and state and local income taxes. This includes, among other states, California, New Jersey and New York.

Another important change is that all personal exemptions have been eliminated. Often, this has been made up for in other modifications, such as doubling the child tax care credit. However, for lower-income donors, especially those without kids, the tax bill may have an overall slightly negative impact, especially with changes to the earned income tax credit that decreases its value.

**Giving is All About GDP. What Does It All Matter Anyway?**

It is true that charitable giving, for the last fifty plus years, has always ended up between 1.8 – 2.2 percent of the U.S.’s Gross Domestic Product. Every year. Without fail. Like clockwork. If we can expect a relatively strong economic market in 2018, and most experts seem to agree there will be solid, but not record, economic growth, then giving will likely be okay.

But that is a macro, big-scale result. Within that percentage, individual organizations and even subsectors see increases or decreases all the time. What happens to your organization, as AFP has said many times during periods of slow growth, natural disasters, or other issues, is most dependent upon your skills as a fundraiser and the course you set for your fundraising program.

**Strategy for 2018**

The sky isn’t going to fall, but the theme for 2018 will be change. The increased standard deduction could well lead to some decreases in giving, only to be offset by a solid economy and never-stopping stock market. We are all in a new fundraising environment. Here are some thoughts on how to proceed:

**1)     Focus on Major Donors**. The next few years is the time to connect with, cultivate and make those major-gift asks. Wealthier donors, in addition to seeing a slightly larger tax cut and the increase in the estate and gift tax exemption limit, can also take advantage of two other tax changes:

a)     An increase in the limit on the amount of total charitable giving that can be deducted in one year, from 50 percent to 60 percent of adjusted gross income; and

b)     The elimination of the Pease Limitation, which acted as a surtax on high-income taxpayers by reducing the value of their itemized deductions by three percent.

Combined with the strong economy, the timing is perfect for many high-wealth donors to make large, transformative gifts to their favorite organizations. Hopefully, one of them will be yours.

**2)     Corporations May Be Full of Opportunities.**What the new tax law does for corporations can’t be overstated: tax rates dropped significantly, up to 40 percent for some larger businesses. Whether that savings is directed towards stakeholders, employees or even charitable projects, no one can say right now. But now is an opportune time to develop connections and make your pitch.

**3)     Small-Level Donors Likely to be Steady**. While there are several key changes that may affect your donors who give small annual gift gifts, they aren’t likely to be affected by the doubling of the standard deduction. Unless he or she supports so many charities that the doubling of the standard deduction means they will no longer itemize (and so might consider pulling back some of their support), most smaller-level donors will likely continue to give at current levels.

**4)     Mid-Level Donors May Be the Most Complicated—So Get to Know Them**. This might include donors giving several hundred dollars, to donors in the $1,000 - $5,000 range, depending on how much they’re giving in total and the rest of their tax situation. They were itemizers in 2017, but in 2018, all of the changes may lead them to consider taking the doubled standard deduction. On the other hand, they may end up with more discretionary income in 2018.

There’s only one way to ensure they continue to give, and that’s by getting to know them, if you haven’t already. No, you don’t need to talk specifically about their tax situation, but you can (and should) ask them about what they want to support, why they support your organization, and if they know how the new tax law will affect them.

**5)     Stocks Are a Winner**. Donors who give stock are probably paying enough taxes to itemize. But, even if they don’t itemize, the strength of the stock market will continue to ensure that gifts of stock will likely be popular throughout the year. Remember, donors don’t have to pay the capital gains on the appreciation of their stock gifts, which can be a big incentive.

**6)     IRA Rollovers Should be Explored**. If you’re not familiar with the Charitable IRA Rollover, find out about it. Donors age 70½ or older can contribute up to $100,000 of IRA assets directly to one or more charities. The incentive to give isn’t affected by any deduction, as the gift counts towards the donor’s annual required distributions from the IRA and is removed from taxable income.

**7)     Planned Gifts May Be More Attractive**. So, if the threshold for being able to take advantage of the charitable deduction is much higher now, what’s a donor to consider doing? Maybe it’s time for that planned gift to increase deductions and ultimately reduce your tax while getting a fixed payment every year. Older donors who have stock, but may be wary of the bullish stock marketing coming to an end sometime in 2018, may look favorably on a planned giving option.

There are as many possibilities and situations as there are donors, and again, these are all general guidance ideas. Some charities may find that they’re not affected much at all by the new tax laws, and others may see a significant impact.

In addition, strategies may change as the profession explores the new fundraising landscape, and AFP welcomes your thoughts. Let us know what you’re thinking and how you’re approaching your fundraising in 2018.