

Your Financial Support of St. Matthew

I write this brief note to explain the interaction between your support to St. Matthew and your calculation of your Federal income tax liability for 2018.

Important changes in the new tax law. - - In December of last year the Congress enacted significant changes to the Federal individual income tax. The most significant change related to your support of St. Matthew arises from changes that will increase the number of taxpayers who claim the standard deduction in lieu of itemizing deductions.

Your financial support of St. Matthew remains a qualifying charitable contribution, but many of us will now find it not in our financial interest to claim itemized deductions of which charitable contributions would be a part. Compared to 2017, the standard deduction is nearly doubled for 2018. For a married couple filing a joint return, the standard deduction for this year is \$24,000 compared to \$12,700 in 2017; for single filers, \$12,000 (\$6,350 in 2017); for head of household filers, \$18,000 (\$9,350 in 2017). Unless your itemized deductions would exceed the standard deduction it generally is not in your financial interest to itemize.

In addition to increasing the standard deduction, the new law limits itemized deductions that you may claim compared to 2017. Most importantly, a taxpayer, regardless of filing status, may claim no more than \$10,000 in State and local income or sales taxes and property taxes as an itemized deduction. For most taxpayers who have itemized their deductions in past years, their three largest sources of itemized deductions are their State and local taxes, their mortgage interest, and their charitable contributions. Because of the limitation on the State and local tax deduction, a married couple that files a joint return now must have charitable contributions, mortgage interest expense, and other itemized deductions that total more than \$14,000 for it to be financially beneficial to itemize deductions. Over the past five years taxpayers who itemize their deductions have comprised approximately 30 percent of all taxpayers, the staff of the Joint Committee on Taxation estimates that approximately 13 percent will itemize in 2018. Many of us will find it more beneficial to claim the standard deduction for 2018 and not itemize our charitable contributions and any otherwise qualifying deduction.

Required minimum distributions. - - Amounts in a traditional IRA are includible in income for Federal income tax purposes when withdrawn. Minimum required distributions are required to be made from tax-favored retirement arrangements, including IRAs. For a traditional IRA, the IRA owner must take these required minimum distributions, RMDs in the lingo of the financial press, beginning by April 1 of the calendar year following the year in which the IRA owner attains age 70½.

Under a special exception, an otherwise taxable IRA distribution from a traditional IRA is excluded from income to the extent the distribution is a qualified charitable distribution. To be a qualified charitable distribution the distribution must be made from an IRA directly by the IRA trustee to a qualifying charitable organization, such as St. Matthew Presbyterian Church. The exclusion applies only for distribution made after the date the IRA owner attains age 70½. That is, not everyone with a traditional IRA can take advantage of this special exception. The exclusion may not exceed \$100,000 per taxpayer per year. Importantly a qualified charitable

distribution is taken into account for purposes of satisfying the minimum distribution rules applicable to traditional IRAs.

The importance of this special exception to St. Matthew's older members is that if you have a traditional IRA, by directing a distribution to St. Matthew you do not have to include the distribution in income for Federal income tax purposes. This has the same economic effect as providing you with an itemized deduction for your contribution even if you otherwise elect to claim the standard deduction.

Gifts of appreciated property. - - The law changes enacted last year did not change the basic tax benefit that individuals can receive if they make a charitable contribution of appreciated assets (*e.g.*, shares of stock) in lieu of cash. If you were to sell an appreciated asset and donate the cash received to St. Matthew, you would have to report the appreciated gain as part of your income when calculating your Federal income tax liability. If you donate the asset to St. Matthew, St. Matthew will sell the asset and receive the same value as if you had sold the asset, but you do not have report the appreciated gain as part of you income.

The new tax law overall. - - Last year's legislation made many fundamental changes to the Federal tax system. If you are interested in an overview of the Federal tax system, my colleagues on the staff of the Joint Committee on Taxation prepare an annual overview. I think you may find the 2018 edition *Overview of the Federal Tax System As In Effect For 2018* (JCX-3-18) informative. It is available at www.jct.gov and is linked here:

<https://www.jct.gov/publications.html?func=startdown&id=5060>