Adapting to tax reform

How donors responded and their plans for the future

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The charitable giving landscape underwent a seismic shift in 2018, the first full year of giving since the implementation of 2017's Tax Cuts and Jobs Act.

While donors' motivations for giving are personal and complex, rooted in values, how much people give is also strongly correlated to a variety of financial factors, including income, investment performance, the donor's sense of financial security, and possibly tax benefits.

Under the new tax law, charitable giving maintains its tax-deductible status, but other provisions in the tax code do have bearing on the charitable tax benefit for which donors are eligible. This report depicts how a large portion of the affluent American tax base responded to tax reform by making real and practical adjustments to their charitable giving—and how all taxpayers are now processing and evaluating the outcomes associated with their choices.

As 2019 winds down and a new tax season is upon us, opportunity exists for donors to make additional changes to maximize their tax savings through giving. Donors would be well-served by taking a close look at their charitable giving choices to ensure that they are making the most strategic and effective decisions at year-end—for themselves and for the causes they care most about.

Fidelity Charitable conducts periodic tracking studies among consumers to measure how attitudes and adoption of charitable planning tactics have evolved. The 2019 survey also aimed to understand the impact of tax reform and how taxpayers adapted their giving when the new law was passed. The study surveyed 475 affluent and high-net worth charitable donors who itemized tax deductions two of the last three years.

The Tax Cuts and Jobs Act

Changes in the tax code and their implications for charitable giving

Maintained the charitable deduction

Donors are still eligible for a tax deduction for donations to qualified charitable organizations.

Increased the standard deduction

Overall, fewer people now collect enough itemized tax deductions to surpass the new standard deduction. This means that fewer taxpayers receive a specific tax benefit for charitable giving.

Eliminated or reduced many popular tax deductions, like the state and local tax deduction

Limiting popular tax deductions makes it more difficult to collect enough itemized tax deductions to surpass the new standard deduction.

Key findings

1

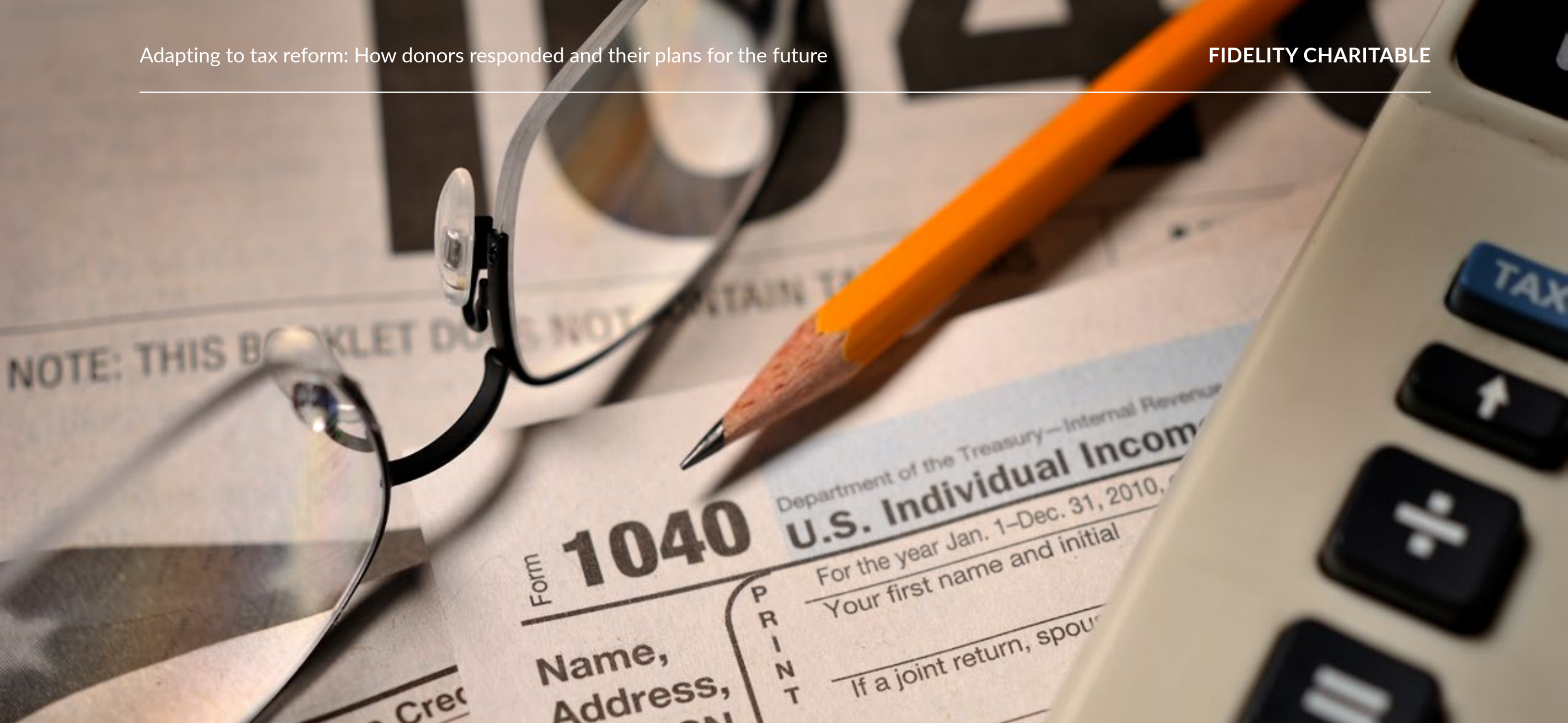
Tax reform had an effect on the way many donors gave to charity in 2018, although most did not modify the overall amount they donated.

- Half of taxpayers say they made an adjustment to their charitable giving in response to tax reform, like contributing to a donor-advised fund or donating appreciated securities to charity. However, the majority did not modify the overall amount they donated to charity.
- For those who increased or decreased their total charitable giving, tax reform was one of a variety of factors that influenced the decision. But for those who gave less to charity, tax reform was the most frequently cited reason.

2

Consumers still may not understand the full implications of tax reform on charitable giving—or the variety of charitable tax strategies they could implement to help improve their tax situations.

- Despite the changes that many taxpayers made in their giving, a third of consumers were surprised about their tax situation after filing their 2018 returns. And more than half of that group reported that their situation was worse than expected.
- As taxpayers look back on their 2018 tax situation and think ahead, the majority say they will likely give in similar ways as they consider giving in 2019.



Most consumers did not adjust the total amount they gave to charity in 2018, reinforcing that giving is a decision motivated by a broad range of factors.

Tax reform eliminated or reduced many popular tax deductions—leaving charitable giving as one of the only levers taxpayers can pull to affect their tax situation. This could have spurred some consumers to give less to charity, in the event that they would not receive a tax benefit for their donations. Alternatively, it could have caused some taxpayers to increase their charitable giving in order to surpass the threshold at which it makes sense to itemize—and therefore receive a tax benefit for giving. However, there are many factors that influence the amount a donor gives to charity—and in the end, 76 percent of affluent taxpayers donated about the same amount to charity in 2018 as they did the previous year.

CHARITABLE GIVING IN 2018 COMPARED TO 2017

Charitable giving in 2018 compared to 2017, by age

Millennials were more likely to have increased their charitable giving in 2018 than Gen Xers and Baby Boomers. However, this is more likely to be in response to a variety of other factors than due to tax reform. For example, it could reflect Millennials' increasing earning power as they move toward the mid-points of their careers and have become more active and connected in their communities, while older generations have plateaued or decreased their income due to retirement. It could also illustrate a greater flexibility that younger taxpayers have in their budgets to increase their giving, compared to those who are in or approaching retirement. Finally, it could reflect that Boomers have already reached their desired giving level and have no wish to increase—while younger generations are still ramping up. According to previous research, Boomers still make larger annual donations to charity—an estimated median total of $2,000 compared to Millennials' $1,000[1]—but the trends indicate that Millennials are on their way to catching up.

	MILLENNIALS	GEN X	BABY BOOMERS
Gave about the same	72%	73%	81%
Gave more than the previous year	**22%**	**16%**	**9%**
Gave less than the previous year	6%	11%	10%

Charitable giving in 2018 compared to 2017, by advisor use

Taxpayers who work with a financial advisor were more likely to increase their charitable giving in 2018. In some cases, this could reflect advisor guidance to increase giving in order to surpass the itemization threshold—and therefore receive a tax benefit for giving.

	WORK WITH AN ADVISOR	DO NOT WORK WITH AN ADVISOR
Gave about the same	72%	84%
Gave more than the previous year	**19%**	**7%**
Gave less than the previous year	9%	9%

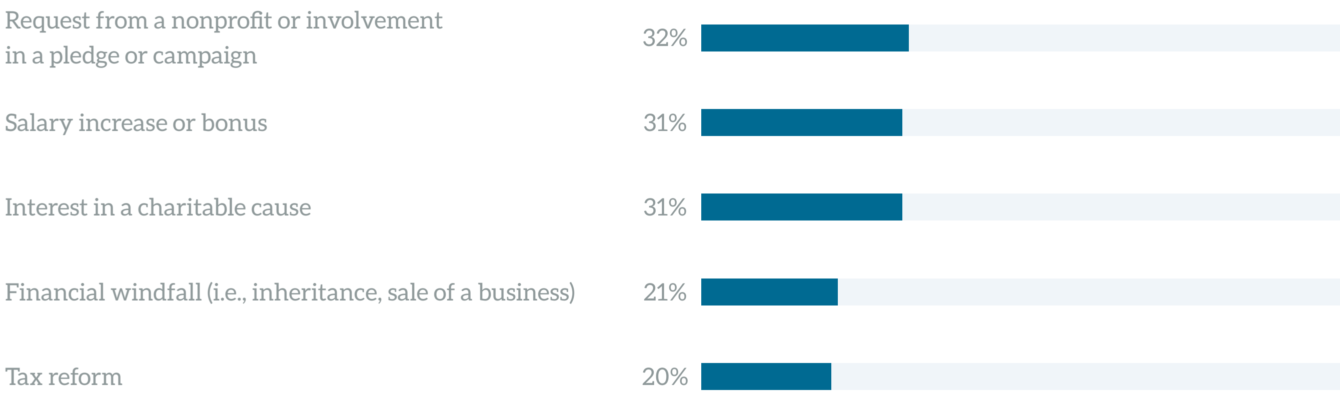
[1] *Fidelity Charitable, "Future of Philanthropy," 2016.*

Among those who gave less in 2018, nearly half cited tax reform as the reason for the decrease; it was less influential among those who increased their giving.

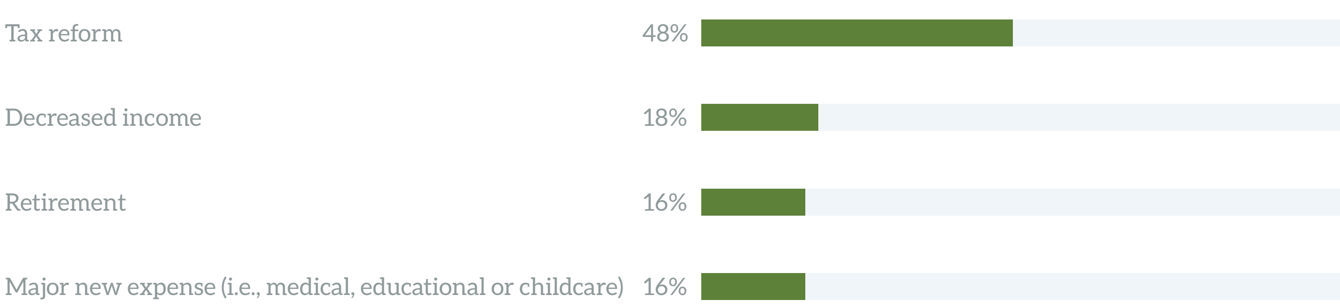
While only 9 percent of taxpayers say they gave less in 2018 than the previous year, the new tax law was the most influential factor for them to do so—with 48 percent of this group citing tax reform as the reason they gave less. This far outweighs the 18 percent who cited decreased income and 16 percent who cited retirement or a major new expense. The decrease in charitable giving in direct response to tax reform could indicate the difficulty many taxpayers have in surpassing the threshold at which it makes sense to itemize their deductions and receive a tax benefit for charitable donations.

Among those who gave more to charity in 2018, 20 percent cited tax reform as the reason. However, the respondents' interest in the charitable cause, as well as other financial factors influencing giving, such as a strong job market influencing salaries or generational wealth transfer like inheritance were even more powerful. Taxpayers were more likely to name reasons like these for increased giving. But for the 20 percent who gave tax reform as the reason they increased their giving, they may have given more in order to overcome the itemization threshold and ensure a tax benefit for their charitable donations.

TOP REASONS FOR INCREASED CHARITABLE GIVING



TOP REASONS FOR DECREASED CHARITABLE GIVING



Tax reform spurred approximately half of taxpayers to make adjustments to their approach to charitable giving, even if they kept the overall amount they donated the same.

Adjusting overall giving totals is only one of a variety of ways that donors could respond to tax reform. In fact, half of taxpayers say they made at least one change in their charitable giving in direct response to tax reform—citing a variety of adjustments, including changing their giving levels, contributing to a donor-advised fund, or "bunching" several years' worth of charitable gifts into a single year. These results demonstrate the myriad ways an individual could adjust their approach to giving to maximize both their contributions and tax savings.

TAXPAYERS WHO MADE AT LEAST ONE CHANGE IN GIVING IN RESPONSE TO TAX REFORM

50%

Changed giving levels due to the loss of other deductions	19%
Changed giving levels because of the increased standard deduction	**16%**
Contributed to an existing donor-advised fund	15%
Made a qualified charitable distribution from an IRA	14%
Grouped several years' worth of gifts into a single year to maximize charitable deductions ("bunching")	13%
Donated appreciated stocks to maximize charitable deductions	11%
Established a donor-advised fund	8%

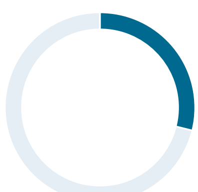
Thirty-two percent of affluent taxpayers were surprised by their tax situation after filing their 2018 tax returns.

Conversations around tax reform dominated the media for months following the passage of the Tax Cuts and Jobs Act in December of 2017—providing a lengthy lead-up for taxpayers to adapt and make adjustments in response to the new tax rules. Despite the long lead-up, though, one third of high-net worth taxpayers were surprised with their outcomes after filing. This reaction was consistent among those who worked with an advisor and those who did not—indicating that financial advisors may have missed some opportunities to work with clients and provide guidance around the new tax law. When broken down by generation, the survey found that older taxpayers were disproportionately surprised—with 40 percent of Baby Boomers saying they were surprised, compared to only 29 percent of Millennials and 23 percent of Gen Xers.

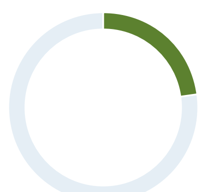
IMPACT OF TAX REFORM ON 2018 TAX SITUATION

Taxpayers somewhat or very surprised by their 2018 tax situation, by age

29%
Millennials



23%
Gen X

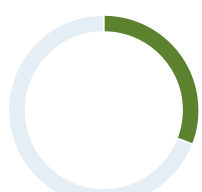


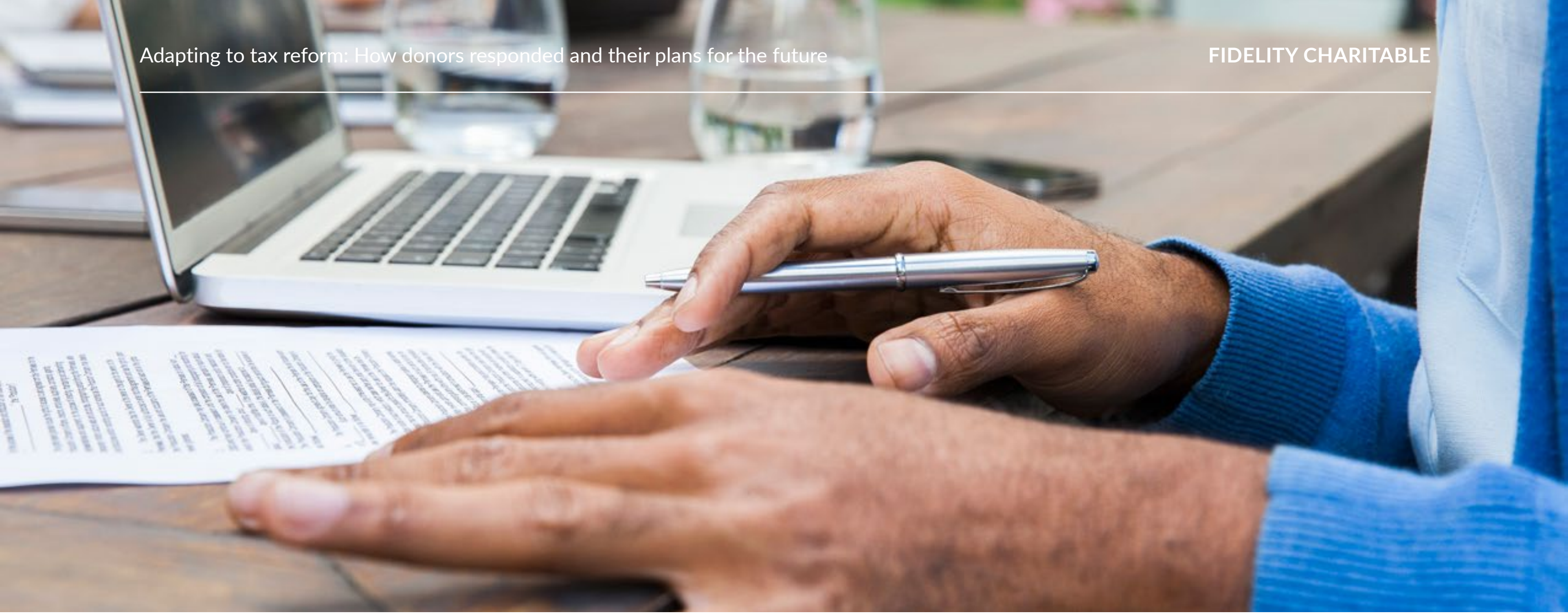
40%
Baby Boomers

Taxpayers somewhat or very surprised by their 2018 tax situation, by advisor use

33%
Consumers who work with a financial advisor

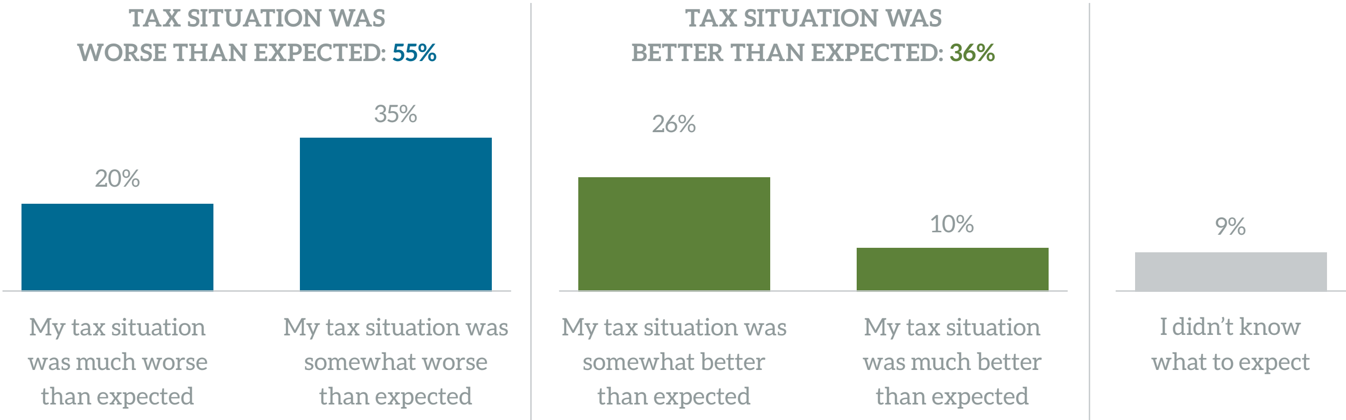
31%
Consumers who do not work with a financial advisor

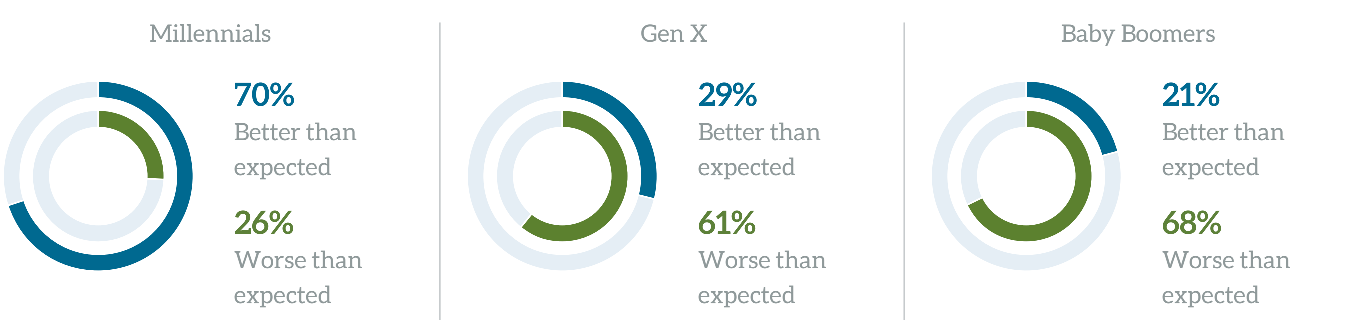




Of those who were surprised, more than half said their tax situation was worse than expected—with 20 percent saying it was much worse.

The majority of taxpayers who received unexpected outcomes weren't pleased with the result—with 55 percent saying their tax situation was worse than expected. When broken down by generation, though, the bad news is weighted toward older taxpayers. Seventy percent of Millennials said their results were better than expected—while 61 percent of Gen Xers and 68 percent of Baby Boomers reported that their outcomes were worse than expected.





Implications for giving in 2019 and beyond

The majority of taxpayers say they will stay the course with their charitable giving.

Seventy-five percent of taxpayers say they will give about the same in 2019 as they did in 2018, which could be a missed opportunity for many to substantially improve their tax situations going forward.

HOW TAXPAYERS PLAN TO GIVE IN 2019

The large segment of taxpayers who were surprised by their tax situation in 2018 suggests that donors should continue to evaluate and consider making changes to their giving in light of tax reform. Donors should take stock of their tax situation and consider how tweaks to their giving could help maximize their savings. Financial advisors should be proactive in initiating charitable conversations with clients to ensure that they are aware of more advanced charitable tax strategies and making the most effective and tax-efficient decisions.

Tax reform is one of many factors that will continue to influence giving.

The new tax law will continue to work in conjunction with a variety of factors to influence the way Americans give. And these other influences—such as market performance and generational wealth transfer—could blunt the impact of tax reform. On an individual level, taxpayers will continue to adapt to their specific circumstances, adjusting giving according to factors like salary increases or decreases, retirement, and their personal interest in charitable causes.

The charitable landscape will adapt to changing attitudes and approaches to giving.

The new tax law made it more difficult for many donors to receive a direct tax benefit for their charitable giving. As giving is decoupled from a tax deduction for many donors, nontraditional forms of giving—such as point of sale donations and social media fundraising campaigns—could continue to take hold and become a more significant part of the charitable landscape. Similarly, some donors could turn to impact investing—making investment choices based on social or environmental factors—as a way to make a positive difference in the world while still receiving a personal benefit.

Methodology

W5, an independent research firm, conducted a research study on behalf of Fidelity Charitable to profile taxpayers, their awareness of charitable giving strategies, and their response to the Tax Cuts and Jobs Act. The 2019 study surveyed 475 affluent and high-net worth charitable donors who itemized tax deductions two of the last three years.

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