INDEPENDENT SECTOR

2017 Final Tax Bill Summary

Issue	Policy Change	Impact on Charities
Standard deduction & charitable giving	The bill increases the standard deduction to $24,000 for joint filers and $12,000 for individual filers. It also limits taxpayers' ability to deduct state, local, and property taxes.	Under the new tax law, fewer than 10% of taxpayers may choose to itemize and claim the charitable deduction. This shift will cause a $12-$20 billion decline in charitable giving each year.
Limits on charitable giving	The bill increases AGI limits on cash contributions to public charities from 50% to 60% and retains the 5-year carryover. It also repeals the "Pease Limitation", which will sunset in 2025. The bill includes two additional changes to charitable giving policy.	Increasing AGI limits and repealing the Pease limitation will incentivize the few high-income donors that still itemize to give more to charity, but this increase in giving was factored into recent analyses conclusions that charities will see a net loss of $12-$20 billion in giving. The slightly higher levels of giving will not be enough to offset a final bill's overall damage to charitable giving. The tax bill also states that: • No charitable deduction will be allowed for the purchase of seating at a college athletic event; and • Donee returns no longer can be used by a donor to substantiate a gift for federal tax purposes (which will prevent donors from trying to circumvent traditional tax documentation for their gifts by asking nonprofits to record donations on their Forms 990).
Estate tax & charitable giving	The bill significantly weakens the estate tax by doubling the threshold for triggering the estate tax to $11 million for individuals and $22 million for couples, exempting almost all households from the tax.	Weakening the estate tax, by applying it to only a few households, will further reduce giving to charities, possibly decreasing as much as $7 billion. In 2010, when the estate tax was temporarily repealed, gross charitable bequests in IRS tax filings totaled $7.5 billion – a 37 percent drop from $11.9 billion the prior year. The tax returned in 2011 and charitable bequests increased by 92 percent, totaling $14.4 billion.

Limit on executive compensation	The bill imposes a 21 percent excise tax for individual compensation (cash and benefits, except retirement and health) in excess of $1 million for any one of the five highest compensated employees at charities. It also applies to excess parachute payments, even if the remuneration doesn't exceed $1 million.	This provision is intended to align with corporate tax law that caps the amount of executive compensation that a corporation is able to deduct at $1 million. However, this comparison isn't entirely accurate, because corporations with CEO contracts in place prior to November 2, 2017 still will be able to deduct "performance-based" compensation in excess of $1 million. Charities are not afforded the same opportunity to provide competitive salaries to their executives, who often manage organizations with assets, workforces, and functions that equal or are larger and more complex than for-profit businesses. This provision limits the ability of communities and volunteer boards to decide how to invest in local solutions. It also may impact charities' ability to attract and retain talent and skills necessary to tackle society's most difficult problems.
Unrelated Business Income Tax (UBIT)	The bill will require charities that operate a trade or business to calculate net income for each activity separately, rather than in aggregate, which will result in a tax increase for some charities.	For organizations that operate more than one trade or business, they must calculate net income for each business separately, rather than in aggregate. A loss can only be applied to the tax liability from the business where it occurred. This provision increases taxes on legitimate, market-based solutions that charities rely upon for revenue, particularly when faced with decreases in charitable giving or government funding.
Tax on private college and university endowments	Colleges and universities meeting certain student and asset criteria will be required to pay an excise tax of 1.4 percent on net investment income from their endowments.	There are concerns that this policy establishes a precedent, which will enable policymakers to dictate how all charitable organizations distribute their endowments.
Art museums	Art museums must be open to the public at least 1,000 hours per year to qualify for private operating foundation status and benefits.	This provision is limited to art museums that function as private operating foundations.

Healthcare	The bill lowers the threshold to claim the medical expense deduction for out of pocket medical expenses to 7.5% for all taxpayers. The bill also repeals the individual mandate to purchase health insurance	The medical expense deduction pays for medical expenses that support severely ill patients or individuals in need of long-term care. Lowering this threshold help provide medical support for vulnerable populations. The Joint Committee on Taxation estimates that 13 million people will lose their healthcare coverage due to increasing healthcare costs brought on by the repeal of the individual mandate. This will impact charities' ability to provide affordable healthcare to their employees as well as jeopardize the well-being of the individuals they serve.
Overall impact on individual taxpayers	The final tax bill includes permanent tax cuts for corporations, but temporary tax cuts for low- and middle-income households. Within 10 years, it will increase taxes on these households and exacerbate burdens on vulnerable populations.	Both the Joint Committee on Taxation and the Congressional Budget Office indicate that more than half of low- and middle-income households will see their taxes rise within 10 years.