Up in the Air:
Charitable planning in a shifting tax landscape

It's an election year, which means you may have more questions than answers as you work with your advisors to build out your financial and estate plans. In particular, the looming sunset of key provisions of the Tax Cuts and Jobs Act (TCJA) of 2017 has created a tremendous amount of ambiguity.

For many taxpayers, the potential sunset of the TCJA's higher estate tax exemption is top of mind. Unless Congress intervenes, the exemption is set to fall after December 31, 2025 from roughly $27 million per couple to approximately $14 million per couple (depending on inflation adjustments).

No one has a crystal ball, and it is impossible at this point to know whether or when you should implement planning strategies to address potential changes in the law. Nevertheless, if you are among those who would be affected by the estate tax exemption's precipitous drop, it's important to know that charitable strategies can fit nicely into a gifting plan that would help offset the sunset's impact.

If you're a business owner, for example, you could explore launching a gifting program now to transfer shares of the business not only to your heirs to take advantage of the higher exemption, but also to a donor-advised or other fund at the Community Foundation. With these gifts, you could reduce the value of your taxable estate while also executing a business transition and philanthropy plan that aligns with your overall intentions regardless of the tax laws.

Along those lines, some families may decide to lean into annual exclusion gifts ($18,000 per gifting spouse per recipient in 2024) to family members and other individuals to reduce taxable estates without eating into the lifetime gift and estate tax exemptions.

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If you're considering ramping up your annual exclusion gifts, you might consider adopting a parallel strategy for charitable gifts. Gifts to charities are deductible for gift and estate tax purposes (as well as for income tax purposes) and therefore will also reduce the value of your taxable estate without using your exemption. Some philanthropists report that they like the idea of making annual exclusion gifts to family members, and, while they're at it, making stock gifts of an equal amount into a Donor Advised Fund at the Community Foundation.

Given the uncertainty about what might happen with the estate tax exemption, some people are updating their estate plans to increase a bequest to a donor-advised or other fund at the Community Foundation. This would help blunt the impact of estate taxes, and the bequest can be adjusted during lifetime as planning goals and estate tax laws evolve.

The Community Foundation is here for you! Our team is happy to help you navigate the opportunities and pitfalls presented by potential changes in the tax law. It is our pleasure to work with you and your family to maximize your charitable goals.

Let's connect.

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