

Tax Cuts and Jobs Act | Senate Tax Reform Bill Summary

Sec.	Bill Proposal	Current Law	Proposed Change	Notes
Sector-Wide Provisions				
A-2.	Increase in standard deduction	The standard deduction is \$6,350 for single individuals and \$12,700 for married individuals filing jointly	Increases the standard deduction to \$24,000 for joint filers and \$12,000 for individual filers	<p>A similar policy that increased the standard deduction to \$11,000 for individual filers and \$22,000 for married filers was estimated to decrease charitable giving by \$11 billion each year.</p> <p>Introducing a universal charitable deduction would recoup this loss and increase giving by almost \$6 billion (Indiana University)</p>
D-6	Increase percentage limit for charitable contributions of cash to public charities	A taxpayer may claim an itemized deduction for charitable contributions. The deduction is limited to a percentage of an individual's adjusted gross income and varies based on the type of gift.	The 50% AGI limit on cash contributions to public charities would be increased to 60% and retains the 5-year carryover.	Increasing AGI limits will incentivize high-income donors to give more to charity. Research is required to understand the exact amount of additional giving this provision could generate or the extent to which it may offset losses created by other provisions in tax reform.
E	Increase in Estate and Gift Tax Exemption	Property in an estate is subject to a tax before it passes to beneficiaries. The first \$5 million worth of transferred property is exempt from estate, gift, and generation-skipping taxes.	The proposal doubles the estate and gift tax exemption amount. This is accomplished by doubling the amount from \$5 million to \$10 million.	<p>Research shows that the estate tax encourages charitable bequests and investments in the sector. Under this provision, the estate tax will apply to a very small number of households. Therefore, it likely will reduce charitable bequests.</p> <p>In 2010, when the estate tax was temporarily repealed, gross charitable bequests in IRS tax filings totaled \$7.5 billion – a 37 percent drop from \$11.9 billion the prior year.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.</p>

H-3	Excise tax on excess tax-exempt organization executive compensation	C corporations are not able to deduct executive compensation over \$1 million for the top 5 employees. A similar type of limitation does not apply to tax-exempt entities.	Tax-exempt organizations would be subject to a 20 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. The excise tax also applies to excess parachute payments, even if the remuneration doesn't exceed \$1 million.	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.
D-7 & II-1	Repeal of overall limitation on itemized deductions; Repeal alternative minimum tax (AMT)	<p>Certain upper income taxpayers are limited in the total amount of itemized deductions they are able to claim (known as the "Pease limitation").</p> <p>Taxpayers are obligated to pay the greater of either their regular tax liability or alternative minimum tax.</p>	Repeals the overall limitation on itemized deductions as well as the individual and corporate AMT.	Removing the Pease limitation and the AMT may incentivize high-income taxpayers to increase their charitable giving. Research is required to understand the exact amount of additional giving this provision could generate or the extent to which it may offset losses created other provisions in tax reform.
D-1	Mortgage interest and Repeal of Deduction for Expenses Not Paid or Accrued by Business	Taxpayers currently are able to deduct on their federal return home mortgage interest and state and local income and property taxes. Taxpayers also can choose to deduct state and local sales tax instead of income tax.	<p>Repeals the deduction for home equity equity indebtedness.</p> <p>Taxpayers cannot deduct state and local income or sales taxes, unless they're related to a trade, business or producing income.</p>	These changes may cause major shifts in the number of taxpayers that choose to file itemized returns. If the provisions lower the number of people choosing to file itemized returns, there also will be fewer taxpayers incentivized through the tax code to give more to charity.
J-3	Charitable contributions and foreign taxes taken into account in determining limitation of partner's share of loss	<p>For charitable contributions, a partner's basis is adjusted by the partner's distributed share of the adjusted basis of the contributed property.</p> <p>Deductions for charitable contributions are not allowed to the partnership. Instead, a partner takes into account the distributive share of the charitable contributions made by the partnership</p>	For purposes of the basis limitation on a partner's loss in a partnership, the partner's share of charitable contributions made and foreign taxes paid by the partnership (similar to the treatment of these items by shareholders in an S corporation) are taken into account.	This change could incentivize charitable giving by some partnerships, but research is required to understand the exact amount of additional giving this provision could generate or the extent to which it may offset losses created other provisions in tax reform.

L-1	Excise tax based on investment income of private colleges and universities	Private foundations must pay an excise tax on net investment income. This requirement does not apply to public charities, including colleges and universities.	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.	There are questions whether this policy establishes a precedent that will enable policymakers to dictate how all charitable organizations distribute and expend their endowments.
L-2	Name and logo royalties treated as unrelated business taxable income	Charities must pay tax on income that is considered “unrelated” to the organization’s tax-exempt purpose. Certain types of royalties, interest, and rents are exempt from UBIT.	Any sale or licensing of a name or logo will be treated as an unrelated trade or business and subject to taxation under UBIT.	This provision will tax charities that generate revenue through the use of their logo or royalties. It may reduce the ability for some charities to use market-based solutions to advance their charitable missions.
L-3	Unrelated business taxable income separately computed for each trade or business	Charities must pay tax on income that is considered “unrelated to their tax-exempt purpose. If they run multiple unrelated businesses, they calculate their taxable income by aggregating income and deductions across all lines of business. Charities can use a deduction related to one business to offset income from another, thereby reducing their total UBI tax liability.	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.	The provision is meant to correct for compliance challenges observed in an IRS study that found some charities operating some activities at a loss to offset income from other activities. The IRS ruled that in these cases, an activity that consistently operates as a loss should no longer be considered an unrelated business and therefore cannot be used to offset UBIT liability. Because the IRS issued clarification to correct for the problem, this provision is not needed to prevent abuse and it increases taxes on legitimate, market-based solutions that charities rely upon for revenue.
L-4	Repeal of tax-exempt status for professional sports leagues	Professional sports organizations are 501(c)(6) organizations that do not receive tax-deductible charitable contributions.	The provision strikes the phrase “professional sports leagues” from section 501(c)(6) and extends the prohibition to “any professional sports league, whether or not administering a pension fund for players.”	
L-5	Modification of taxes on excess benefit transactions	The tax code imposes excise taxes on any transaction in which a disqualified person receives “excess benefit” from a charity.	If a disqualified person receives excess benefit, the organization will be subject to a tax that is equal to 10 percent of the excess benefit. A “presumption of reasonableness” no longer will be the standard use to evaluate excess	This set of provisions clarify the rules that prevent individuals from using charitable resources for private benefit.

			<p>benefit. Instead, organizations must exercise minimum standards of due diligence.</p> <p>It eliminates special rules for knowing behavior by managers who receive professional advice.</p> <p>Investment advisors and employees of donor advised funds and athletic coaches will be treated as disqualified persons.</p> <p>The application of these sanctions will be expanded to include 501(c)(5) and 501(c)(6).</p>	
L-6	Denial of deduction for amounts paid in exchange for college athletic seating rights	Eighty percent of the cost of tickets to higher education athletic events can be claimed as a charitable deduction.	No charitable deduction will be allowed for the purchase of seating at an athletic event.	
Issue-Specific Provisions				
C	Reform of the Child Tax Credit	Taxpayers can claim \$1,000 credit per child, but the aggregate amount is phased out as AGI increases. The child tax credit is refundable equal to 15% of earned income over \$3,000.	<p>Child tax credit would increase to \$1,650 and a new \$500 credit for non-child dependents would be added.</p> <p>The credits will be phased out based on income thresholds that are not indexed for inflation. It also lowers the earned income threshold to \$2,500 and indexes the refund limit per child to inflation.</p> <p>Filers must provide a SSN for each qualifying child to claim the refundable portion of the credit</p>	

Summary will be revised as additional information about the impact of individual provisions on the sector becomes available.

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