Tax Savvy Giving: **Bunching Charitable Contributions**

The 2017 Tax Cuts and Jobs Act triggered numerous changes. One was almost doubling taxpayers' allowable standard deduction, now $27,700 for married filing joint taxpayers. For those committed to charitable giving, the question became whether to take the deduction or to itemize their contributions. Which would maximize their tax benefits? The answer is both.

The key is "bunching" two years of charitable contributions into one year, then itemizing deductions for that year, and taking the standard deduction the next year.

Let's say a joint taxpayer contributes $12,000 each year to charity over a four-year period. When combined with other deductions of another $15,000 – mortgage interest and state taxes, for instance – the total itemized deduction adds up to $27,000 per year. Since the standard deduction of $27,700 is the greater of the two, taking the standard deduction is most advantageous.

Over four years, the standard deduction results in $110,800 of cumulative deductions. Can that number be beat? Yes, by applying the giving strategy of bunching charitable contributions through a Donor Advised Fund.

To understand the strategy, know that when making charitable contributions through a Donor Advised Fund, it is the contribution to the Fund that receives the tax deduction, allowing you to make gifts to your charities on your own timeline.

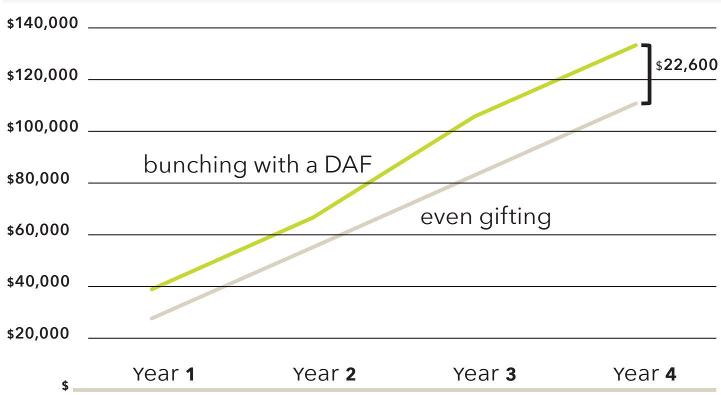
For example, if you contributed $24,000 to a Donor Advised Fund in December of 2023, you would receive a deduction of $24,000 in 2023. If desired, you could wait until 2024, 2025, or even later to distribute the funds to your favorite charities, resulting in two years' worth of tax deductions in the first year.

This pushes year one itemized deductions to $39,000 which exceeds the standard deduction by $11,300. After taking the standard deduction in year two, the taxpayer "doubles up" again in year three for another $39,000 in deductions.

Over the four-year period, the taxpayer's cumulative deductions equal $133,400, which exceeds the first scenario by $22,600. For South Carolina taxpayers paying the highest income tax bracket, this amounts to $10,802 in tax savings over four years.

"My husband and I give through Schwab's Charitable, and it's as easy as can be. Once we've given to a non-profit, it's in our easily accessed records. The gift takes just a few minutes to set up and then transfers after clicking a few boxes. It arrives by check to the Together Women Rise office. We appreciate that once we've funded our Donor Advised Fund at Schwab, it functions like an old-fashioned declining balance account. It feels great to be able to donate our money earlier in the annual cycle, knowing how hard the Together Women Rise Development team works at the end of the year. Those earlier gifts are a great shot-in-the-arm for our organization!"

– Betsy Teutsch



In addition to saving on taxes, taxpayers can use this strategy to increase the basis of stocks in their portfolios. By gifting highly appreciated stock to a Donor Advised Fund, then using the cash originally intended to be given to charity to buy the same stock, the taxpayer effectively "resets" their basis in their stock position. The taxpayer incurs fewer capital gains when the time comes to sell the stock (since the basis will have increased).

Philanthropy is a cornerstone of the Abacus culture. We enjoy helping clients be generous with their resources. We also appreciate paying the IRS its fair share, and no more.