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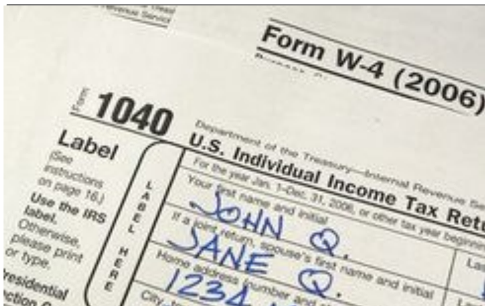
Save Taxes by 'Bunching' Your Charitable Deductions



New Tax Reforms

Several tax reforms in the December 2017 Tax Cuts and Jobs Act impact individual tax filers.

Three of the most critical are:

- Limitation of property and state income taxes deductions to $10,000 each year.
- Elimination of personal exemptions
- Increase in the standard deduction to $12,000 for singles and $24,000 for married couples filing jointly.

With the new limit on property and state income taxes and higher standard deduction levels, many tax filers who have itemized their deductions in the past will find it more beneficial to use the standard deduction.

If your itemized tax deductions are below the new standard deduction level you may want to consider 'bunching' your charitable deductions so you can itemize those deductions in a specific year. 'Bunching' is when you donate charitable contributions for a two or three year period into a single year to raise your deductions above the standard deduction level. This allows you to itemize your tax deductions in one year and potentially use the standard deduction in the next year.

Under the new law, the deduction for charitable giving is limited to 60% of your adjusted gross income for cash gifts. If your charitable giving exceeds this amount, you can carry the excess donations forward for up to five years.

Read How John and Jane Make the New Limit Work for Them

John and Jane are married and are claiming the maximum property and state income tax deduction of $10,000. If they pay $5,000 in mortgage interest this year, they'll need at least $9,000 of charitable donations or other itemized deductions in order to exceed the new $24,000 standard deduction for married couples filing jointly. If John and Jane normally donate $5,000 per year to their favorite charities, they won't meet the threshold to make it advantageous to itemize deductions.

To maximize the deductibility of their charitable donations, John and Jane could 'bunch' them and give $10,000 or $15,000 (two or three years' worth of charitable donations) to their charities in a single year. This would allow the couple to deduct the full amount they donated and itemize their deductions. In the year or two following this, because their tax deductions would be lower, they could then use the standard deduction.

The Donor Advised Fund Alternative

When considering the possibility of 'bunching' charitable donations, you may not want to give two or three years' worth of charitable gifts all in one year and then a lesser amount or nothing in the following years. One way to keep your charitable giving levels on an even keel and plan to ‘bunch’ your charitable donations is to use a Donor Advised Fund or DAF.

What is a Donor Advised Fund?

A DAF is a fund established with a charitable organization or community foundation that allows you to make donations of cash or appreciated investments when you want and decide later which charities will receive the funds, and when they will receive them.

When you donate appreciated investments to a DAF, you’re able to sell the investments inside the DAF without paying capital-gains taxes. In addition, you can use the full market value of the investments as your charitable deduction. Once your funds or investments are donated to the DAF, there is no requirement as to when you must grant the funds out to charities. Therefore, a DAF is a great option to receive the ‘bunched’ charitable donations that you’d like to donate to organizations or causes in future years.

In the example of John and Jane, if they make a $10,000 or $15,000 donation to a Donor Advised Fund, the couple is able to support the organizations and causes they care about on the same $5,000 per year level as they have in the past while ‘bunching’ their charitable deductions and itemizing those deductions in a single tax year. The following year they would not have a charitable deduction, so they would use the standard deduction while still being able to continue their charitable giving from the DAF.

As you look ahead at your charitable giving, consider using appreciated investments to eliminate potential capital gains and ‘bunch’ your gifts to help increase your annual tax deductions.

At Hammond Iles Wealth Advisors, we can assist you in making your giving easy. Contact our office for more information on how you can establish a Donor Advised Fund and donate appreciated investments without capital gains taxes. As always, please consult your tax advisor to make sure your charitable giving is planned according to your individual circumstances.