

# Minimizing Taxes with Charitable Gift Bunching



## Philanthropy Insights

*The federal tax law enacted at the end of 2017 may allow for an increased use of charitable gift “bunching” in order to accomplish philanthropic goals. The new \$10,000 cap on deductions of state and local income and real estate taxes could bring the standard deduction into play for high-net-worth households who might never have considered it before. The bunching technique may benefit donors whose non-charitable itemized deductions fall below the new higher standard deduction (\$24,400 for persons married filing jointly in 2019), so long as the donor has sufficient taxable income to fully deduct several years of charitable contributions in a single year, given deduction limits.*

Bunching involves consolidating tax-deductible charitable contributions that would normally be made over multiple years into a single tax year. In the consolidated year, the donor contributes to a charitable giving vehicle, such as a donor-advised fund (DAF), and receives an immediate tax deduction through itemizing deductions on his or her federal tax return. The donor would then recommend grants from the donor-advised fund to qualified charities over several years, allowing the donor to utilize the now higher standard deduction in those years.



### Learn More:

For more information on Fiduciary Trust Charitable's services for individuals, advisors and charities, visit:

[www.FTCharitable.org](http://www.FTCharitable.org)

### or contact:

Todd Eckler, Executive Director  
617-574-3425

[teckler@fiduciary-trust.com](mailto:teckler@fiduciary-trust.com)



**Bunching involves consolidating tax-deductible charitable contributions that would normally be made over multiple years into a single tax year**

The following hypothetical example involving Bill and Susan Smith illustrates the charitable gift bunching technique:

**Potential Itemized Deductions:**

State and Local Income and Real Estate Tax	\$10,000 (max allowable of their \$75,000 expense)
Mortgage Interest	\$0 (no mortgage)
Medical Expenses	\$0 (expenses did not exceed 2018 7.5% of AGI floor)
Charitable Giving	\$30,000 (typical annual gifts to qualified charities)
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Total	\$40,000

**Standard Deduction:** \$24,400 (for married filing jointly)

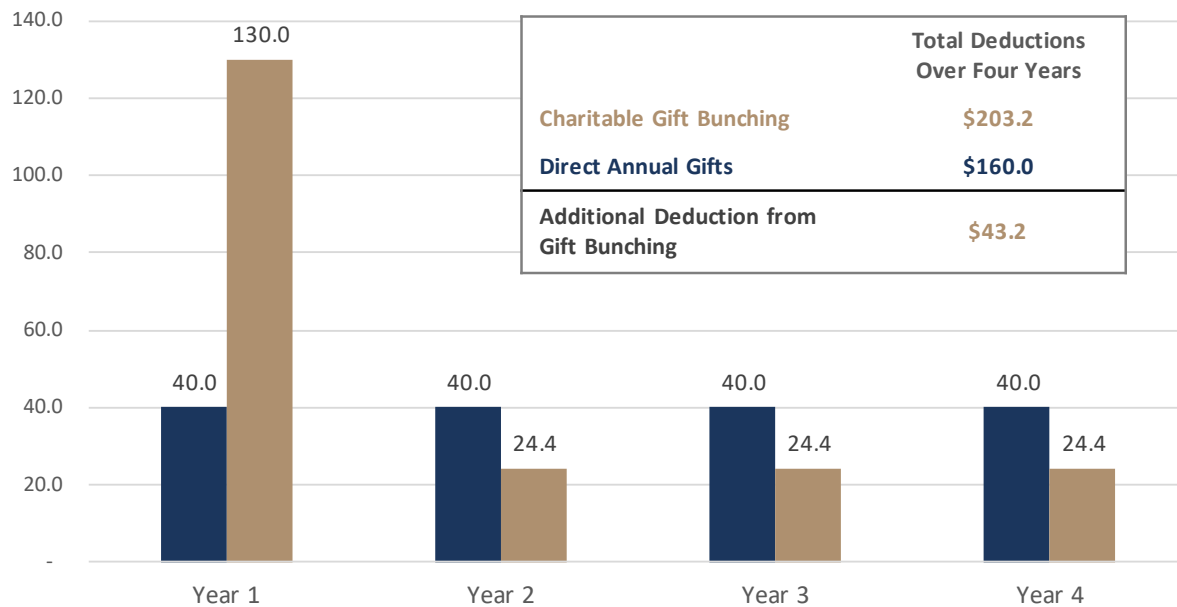
Using a typical direct annual charitable gift approach, the Smiths would lower their federal tax bill by itemizing their deductions (\$40,000) rather than electing the \$24,400 standard deduction. Assuming their deductions did not change, over a four-year period the Smiths would benefit from a cumulative \$160,000 in federal tax deductions (four years at \$40,000 per year).

Using the charitable gift bunching approach, in the first year the Smiths would fund a DAF, with a sponsoring nonprofit with \$120,000 in appreciated securities: an amount equaling four years of their planned charitable giving. Since their federal adjusted gross income (AGI) is greater than \$400,000, they can fully deduct the DAF contribution, as it is less than 30% of their AGI. (The deduction limit is 60% of AGI for cash charitable contributions, and unused deductions may generally be carried forward for up to five future years.) Combining the charitable contribution with their \$10,000 of deductible state income and real estate taxes, the Smiths could take a \$130,000 itemized deduction in year one for federal tax purposes. Although the Smiths could donate cash to the DAF in this bunching approach, donating appreciated securities held for more than one year would result in their not incurring capital gains tax on such appreciation.

Since their only potential itemized deduction in years two through four would be the \$10,000 in state and local income and real estate taxes, the Smiths would then elect to take the higher \$24,400 standard deduction in each of the three years. Across the four years covered by their bunched donation, the Smiths would receive \$203,200 in federal tax deductions (\$130,000 in year one, plus \$24,400 per year in years two through four). During each of those four years, the Smiths would annually recommend that \$30,000 in grants be made from the DAF to the IRS-qualified charities they select. This approach is illustrated on the following page.

**Example: Direct Annual Gifts vs. Bunching**

	Year 1	Year 2	Year 3	Year 4	Total
<b>OPTION ONE: DIRECT ANNUAL GIFTS</b>					
Direct Gifts to Charities	\$30	\$30	\$30	\$30	\$120
<b>OPTION TWO: CHARITABLE GIFT BUNCHING</b>					
Contribution to DAF	\$120	\$0	\$0	\$0	\$120
Grants from DAF to Charities	\$30	\$30	\$30	\$30	\$120

**Annual Federal Personal Income Tax Deductions**

Note: Example based on married couple filing jointly with \$10,000 in allowable federal itemized deductions before any charitable deductions. Assumes there are no investment returns or expenses in the donor-advised fund and that itemized charitable deductions are fully deductible, given federal tax law charitable deduction limits. Non-charitable itemized deductions and the federal standard deduction are assumed constant throughout the four years.

Source: Fiduciary Trust. Example based on 2019 federal tax code as of December 2, 2019.

## Author



Todd H. Eckler  
Executive Director  
Fiduciary Trust Charitable

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In this example, the charitable gift bunching approach would generate a total of \$203,200 of tax deductions over the four years, compared to the \$160,000 generated without bunching. The additional \$43,200 in tax deductions would likely result in lower taxes, assuming that the Smiths' AGI and federal tax rates remained constant throughout the four-year period.

Before implementing a charitable gift bunching approach, however, it is important to examine several factors specific to your financial situation, the charitable giving vehicles used and your charitable objectives. You should consult your tax and wealth advisors to see if charitable gift bunching is the best practice for you, and if appropriate, to determine how best to implement this technique.



Disclosure: The opinions expressed in this article are as of the date issued and subject to change at any time. Nothing contained herein is intended to constitute investment, legal, tax or accounting advice, and clients should discuss any proposed arrangement or transaction with their investment, legal or tax advisers.

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