

# Maximizing tax benefits by concentrating or “bunching” charitable contributions

Case study



The Tax Cuts and Jobs Act became law in December 2017 and most of its changes became effective in 2018 and are scheduled to sunset after 2025. Under the new law, the standard deduction nearly doubled in size. Single filers may now claim a \$12,000 standard deduction, while married couples filing jointly can claim a \$24,000 standard deduction.

		2017	2018–2025
<b>Standard Deduction*</b>	Single	\$6,350	\$12,000
	Married filing jointly	\$6,350	\$24,000

Because of this substantial increase in the standard deduction, many taxpayers who have historically itemized deductions may find it advantageous to take the standard deduction in the future. Those who are charitably inclined and find themselves on the margin between taking the standard deduction or itemizing could maximize their tax benefits by concentrating their charitable contributions and itemizing their deductions in some years and then taking the increased standard deduction in other years. A donor-advised fund enables them to easily execute such a strategy and support charities of their choice over time.

For example, let’s say a married couple has \$23,000 of itemized deductions, including a \$10,000 donation to a qualified charity or donor-advised fund. Because that amount is below \$24,000, they would claim the \$24,000 standard deduction every year; within two years they would claim a total of \$48,000 in standard deductions.

But the couple can take a more tax-advantaged approach as an alternative option. Rather than donate \$10,000 to charity in both 2018 and 2019, the couple concentrates, or bunches, their charitable donation in a single year. The concentrated donation creates a total of \$33,000 in itemized deductions. Over a two year period, the couple will have \$9,000 of additional tax deductions.

## Hypothetical example of a married couple with no children:

Tax Year	Option #1 Take the \$24,000 standard deduction		Option #2 Tax-smart planning: Concentrate Giving	
	2018	2019	2018	2019
Charitable deduction	\$10,000	\$10,000	\$20,000	-
Other deductions	\$13,000	\$13,000	\$13,000	\$13,000
<b>Total</b>	<b>\$23,000</b>	<b>\$23,000</b>	<b>\$33,000</b>	<b>\$13,000</b>
<b>Standard or Itemized Deductions</b>	<b>Standard Deduction</b>	<b>Standard Deduction</b>	<b>Itemized Deduction</b>	<b>Standard Deduction</b>
<b>Deduction Amount</b>	\$24,000	\$24,000	\$33,000	\$24,000
<b>Total two-year deduction</b>		\$48,000		\$57,000

**That’s \$9,000 of additional tax deductions over two years!**

\* IRS

A donor’s ability to claim itemized deductions is subject to a variety of limitations depending on the donor’s specific tax situation. Consult your tax advisor for more information.

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