

Maximizing Tax Benefits by Concentrating or “Bunching” Charitable Contributions

Case Study



The Tax Cuts and Jobs Act (TCJA) became law in December 2017. Most of the law’s changes were implemented in 2018 and are scheduled to sunset after 2025. Under the TCJA, the standard deduction nearly doubled in size. For 2020 taxes, single filers may now claim a \$12,400 standard deduction, while married couples filing jointly can claim a \$24,800 standard deduction.

		2017	2020	2021
Standard Deduction Amounts*	Single	\$6,350	\$12,400	\$12,550
	Married filing jointly	\$12,700	\$24,800	\$25,100

Because of this substantial increase in the standard deduction, many taxpayers who 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 account enables them to easily execute such a strategy while providing ongoing annual support to the causes and charities of their choice.

For example, let’s say a married couple annually has \$23,000 of itemized deductions, including \$10,000 in donations to a donor-advised fund or other public charity. Because that amount is below the \$24,800 standard deduction in 2020 and \$25,100 standard deduction in 2021, they could take the standard deduction each year, and over two years they would claim a total of \$49,900 in standard deductions. This approach is shown below in Option 1.

However, the couple instead takes a more tax-smart approach, as shown in Option 2. Rather than donating \$10,000 to charity each year, the couple concentrates or bunches two years of charitable donations into a single year. The bunched giving creates a total of \$33,000 in itemized deductions in 2020, and they take the \$25,100 standard deduction in 2021. With this option, the couple has \$8,200 of additional tax deductions over the two years.

Hypothetical example of a married couple with no children

Tax Year	Option 1 Take the standard deduction		Option 2 Tax-smart planning: bunch giving	
	2020	2021	2020	2021
Charitable Deduction	\$10,000	\$10,000	\$20,000	\$0
Other Deductions	\$13,000	\$13,000	\$13,000	\$13,000
Total	\$23,000	\$23,000	\$33,000	\$13,000
Standard or Itemized Deductions	Standard Deduction	Standard Deduction	Itemized Deduction	Standard Deduction
Deduction Amount	\$24,800	\$25,100	\$33,000	\$25,100
Total Two-Year Deduction	\$49,900		\$58,100 That’s \$8,200 of additional tax deductions over two years!	

* The standard deduction amounts for different filing statuses may vary annually.

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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