

BUNCHING YOUR DONATIONS THROUGH A DONOR ADVISED FUND

The increase in the standard deduction means that many donors will not collect the necessary deductions to surpass the new standard deduction threshold. A tax-smart strategy to overcome this issue is called “bunching,” where a taxpayer groups together their deductions into a single tax year in order to surpass the itemization threshold. In off-years, taxpayers can take the standard deduction. See the below illustration for more detail.

BUNCHING

Gifts to donor-advised funds are tax deductible. You can combine two or three years of charitable contributions in order to exceed the new, higher standard deduction in a given year. Bunching multiple years' worth of donations in a single year allows you to receive maximum tax benefits for your charitable contributions.



EXAMPLE:

This scenario shows how a married couple, filing jointly, who typically gives \$5,000 a year to charity can benefit from bunching their charitable contributions. This is accomplished by making a \$15,000 donation every three years. In this example, the donors itemize in years one and four and takes the standard deduction in years two, three, five and six, giving them an additional \$18,000 in tax deductions over the six-year period.

DISTRIBUTION OVER TIME

Although you will not make charitable contributions each year using this strategy, you can still support your favorite charities on “off years”. The assets in your donor-advised fund will be available to you, so you can make grant distributions even in the years when you don’t contribute to the fund. Funds that are not distributed as grants will continue to be invested by the community foundation, so your charitable dollars can grow tax-free.

If you give to an endowed donor-advised fund, your gift may be eligible for the Endow Iowa Tax Credit, an additional tax incentive for your giving.

FOR MORE INFORMATION:

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