Bunching charitable gifts

With the dramatic increase in the standard deduction in 2018, to $24,000 for married couples, many charities are worried that the tax incentive for donations will disappear, leading to lower gifts. Because the state and local tax deduction is now capped at $10,000, married taxpayers will need to have at least $14,001 in additional deductions before itemizing makes sense. A large majority of taxpayers are expected to rely upon the standard deduction instead.

Fears of declining charitable gifts may be unwarranted. Many, many Americans are motivated to make gifts to further their philanthropic goals, rather than to secure a tax deduction. Historically, aggregate charitable giving has fallen only during times of recession, and even then has remained remarkably strong. The booming stock market augers well for charitable giving, if it lasts well into the new year.

Still, it is true that some taxpayers augment their charitable giving by the amount of tax savings that they generate. For the tax-sensitive donors, one way to get maximum "bang for the buck" is to bunch charitable gifts into alternating years.

Example. Mr. and Mrs. Jones donate $15,000 to their church every year. They have more than $10,000 in SALT deductions. They still will itemize their deductions, as their total reaches $25,000. At a top tax rate of 37%, that deduction will save them $9,250 in taxes, $18,500 over two years.

Now let's say that this couple doubles up on their gift in the first year, and make no charitable contribution in the second year, taking the standard deduction instead. They will save $14,800 in taxes in the first year, $8,880 the second year, or $23,680 over two years. Bunching their charitable gifts in this way saves them $5,180 in federal income taxes if they are in the 37% tax bracket. Those in lower brackets would have less dramatic savings.

If this strategy catches on, it could lead to an increase in the use of donor-advised funds dedicated to charitable giving. A donation to such a fund is irrevocable when made, but the distribution to a charity at the donor's direction comes later. The tax deduction becomes available the year that the money is placed in the fund, and, therefore, there is no deduction when the charity receives the gift. Any increase in the value of the account from the time of the initial donation to the charitable distribution is tax free.

Going back to Mr. and Mrs. Jones, they might consider contributing their $30,000 to a donor-advised fund in 2018, securing the full tax deduction this year. They would direct the fund administrator to give their church $15,000 in 2018 and another $15,000 in 2019. In that way the church continues to get steady annual support, rather than the roller coaster ride of on-again, off-again donations.

For older retirees

Those who are older than 70 ½ and who have an IRA have another alternative available. They may arrange for a direct transfer of a gift from their IRA to a charity. The amount so transferred will not be included in taxable income, *even though it does satisfy the minimum distribution requirements* for those in this age group.

Because there is no addition to income, there will not be a corresponding charitable deduction. In effect, the retiree gets the benefit of a full charitable deduction on top of the

standard deduction. This “new math” of charitable giving is expected to increase direct gifts from IRAs to charities significantly.

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