

Tax Recommendation - Charitable Contribution Bunching

You may have heard of the charitable “bunching” strategy after the Tax Cuts and Jobs Act went into effect. This strategy arose when the standard deduction doubled beginning in 2018. It allows taxpayers to maximize their overall tax deductions during a two-year period by “bunching” charitable giving into one tax year, then taking a break from direct charitable giving the following year. Bunching two years of donations into one tax year helps maximize your deductions, thereby reducing your income tax liability over a two-year period.

How It Works

In preparing your tax return, you have two choices: claim your itemized deductions or take the standard deduction. For 2023, the standard deduction for married taxpayers filing jointly is \$27,700. So, you will only itemize if your itemized deductions exceed \$27,700.

Example One: You are a married taxpayer and, on average, make charitable donations totaling \$15,000 each tax year. Your other itemized deductions average \$10,000 each year. So, on average, your itemized deductions are \$25,000 each tax year. You will take the standard deduction for 2023. Taking the standard deduction increases your deductions by \$2,700, so your taxable income decreases by \$2,700 more than if you itemized (standard deduction of \$27,700 versus itemized deductions of \$25,000). If you are in the 22% tax bracket, you save \$594 in federal income taxes by taking the standard deduction rather than itemizing deductions – or \$1,188 over tax years one and two (ignoring any increase in the standard deduction for year two).

The bunching strategy is all about maximizing the impact of your itemized deductions over a two-year tax period. Here’s how it works. Using the facts from Example One, if you move *all* your charitable giving to either tax year one or two—in other words, *bunching* your charitable giving into one of two tax years—you maximize the impact of your itemized deductions and *decrease* your overall tax liability over the two-year period.

Example Two: Same facts as in Example One, except you move all charitable giving to 2024. Now your itemized deductions in 2024 are \$40,000. Your 2023 itemized deductions are \$10,000 since you skip direct charitable gifts in 2023. For 2023, you claim the \$27,700 standard deduction since your itemized deductions are only \$8,000. For 2024 you claim \$40,000 of itemized deductions. What have you accomplished? Bunching charitable giving into 2024 yields \$67,700 of total deductions over 2023 and 2024 (\$27,700 plus \$40,000), in contrast to deductions of \$55,400 over tax years 2023 and 2024 (\$27,700 plus \$27,700) without bunching. Bunching increases your total deductions by \$12,300 over a two-year period, yielding federal tax savings of \$2,706 for a taxpayer filing as married who is in the 22% tax bracket.

Who Should Bunch?

Who does bunching work for? Anyone whose itemized deductions excluding the charitable deduction are usually below their standard deduction can benefit from bunching (provided the total bunched donations together with other itemized deductions in the donation year exceed the available standard deduction). If that’s you, bunching is worth a look.