

Maximizing Tax Benefits by Concentrating or “Bunching” Charitable Contributions

Case Study



The Tax Cuts and Jobs Act became law in December 2017. Most of the law’s changes were implemented in 2018 and are scheduled to sunset after 2025. Under the new law, the standard deduction nearly doubled in size. For 2019 taxes, single filers may now claim a \$12,200 standard deduction, while married couples filing jointly can claim a \$24,400 standard deduction.

		2017	2019	2020
Standard Deduction Amounts* Note: IRS has not published 2021 amounts	Single	\$6,350	\$12,200	\$12,400
	Married filing jointly	\$12,700	\$24,400	\$24,800

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 account enables them to easily execute such a strategy while providing ongoing annual support to the charities of their choice.

For example, let’s say a married couple annually has \$23,000 of itemized deductions, including a \$10,000 donation to qualified charities or a donor-advised fund. Because that amount is below the \$24,400 standard deduction in 2019 and \$24,800 standard deduction in 2020, they would take the standard deduction each year, and within two years they would claim a total of \$49,200 in standard deductions. This approach is shown in Option 1 below.

But the couple could instead take a more tax-smart approach (Option 2 below). Rather than donate \$10,000 to charity each year, the couple could concentrate or bunch their charitable donation into a single year. The concentrated donation would create a total of \$33,000 in itemized deductions in 2019, and they would take the \$24,800 standard deduction in 2020. Over the two years, the couple would have \$8,600 of additional tax deductions.

Hypothetical example of a married couple with no children:

Tax Year	Option 1 Take the standard deduction		Option 2 Tax-smart planning: concentrate giving	
	2019	2020	2019	2020
Charitable Deduction	\$10,000	\$10,000	\$20,000	-
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	\$24,400	\$24,800	\$33,000	\$24,800
Total Two-Year Deduction		\$49,200		\$57,800

That’s \$8,600 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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