

How new tax rules impact charitable giving



Like many other Americans, annual giving may be part of your long-term strategy to help accomplish personal and charitable goals. Even though the new tax legislation incorporated some of the most significant changes for individuals and corporations in over a generation, charitable giving can continue to offer tax benefits.

Make charitable gifts tax efficient by “bunching” contributions.

Prior to the Tax Cuts and Jobs Act of 2017 (TCJA) that went into effect in 2018, charitable giving was incentivized because there was a corresponding income tax deduction for gifts made to qualified charities. Under the TCJA, the federal standard deduction nearly doubled, so for many taxpayers the need to itemize has been eliminated.

Changes to federal income tax standard deduction rates

Taxpayer status	Pre-TCJA tax years*	Current tax year*
Individuals	\$6,500	\$12,000
Heads of households	\$9,550	\$18,000
Married, filing jointly	\$13,000	\$24,000

* Prior to TCJA, taxpayers over age 65 were allowed to take an additional \$1,250 deduction (\$2,500 for married couples, filing jointly). This deduction continues to be available under TCJA.

The good news is, charitable donations to qualified charities and private foundations continue to be deductible as an itemized deduction under the TCJA, subject to adjusted gross income (“AGI limits”). Note that for cash donations to a qualified charity, the AGI limit was raised from 50% to 60%, and the limit remains at 30% for capital assets like stock.

Yet unless total itemized deductions, including charitable contributions, mortgage interest, medical deductions, state and local taxes (SALT) combined equal more than \$12,000 for individuals or \$24,000 per married couple, taxpayers will likely use the new standard deduction versus itemizing.

Benefits of bunching charitable donations

Couple 1 – No bunching



Annual standard tax deduction of \$24,000
Annual charitable deduction of \$10,000
(annual itemized deductions are less than standard deduction including charitable deduction)



Total deductions over 4 years: \$96,000

Couple 2 – bunching



Annual standard tax deduction of \$24,000
Biennial charitable deduction of \$20,000
(itemized deductions are greater than standard deduction with charitable deduction of \$20,000)



Total deductions over 4 years: \$110,000

Couple 2



By bunching their donations into one year, and taking the standard deduction, couple 2 receive **\$14,000** more in deductions compared to not bunching over the course of four years of charitable giving.

Hypothetical example

If a couple uses the standard deduction of \$24,000, and they typically donate \$10,000 per year to charity — but their other deductible expenses are minimal — they may be losing the tax benefit of the charitable deduction. Accelerating several years of giving into a single year (sometimes called “bunching”) may allow some tax benefits. By bunching their donations into one year, and taking the standard deduction in the following year, they receive \$14,000 more in deductions compared to not bunching over the course of four years of charitable giving.

Couple 1 No Bunching	2018	2019	2020	2021	Total
Charitable deduction	\$10,000	\$10,000	\$10,000	\$10,000	\$40,000
SALT deduction	\$10,000	\$10,000	\$10,000	\$10,000	
Medical deduction	\$1,000	\$1,000	\$1,000	\$1,000	
Mortgage interest	\$0	\$0	\$0	\$0	
Total itemized deductions	\$21,000	\$21,000	\$21,000	\$21,000	
Standard deduction used	\$24,000	\$24,000	\$24,000	\$24,000	\$96,000

Couple 2 Bunching Donations	2018	2019	2020	2021	Total
Charitable deduction	\$20,000	\$0	\$20,000	\$0	\$40,000
SALT deduction	\$10,000	\$10,000	\$10,000	\$10,000	
Medical deduction	\$1,000	\$1,000	\$1,000	\$1,000	
Mortgage interest	\$0	\$0	\$0	\$0	
Total Itemized deductions	\$31,000	\$11,000	\$31,000	\$11,000	
Standard deduction	\$24,000	\$24,000	\$24,000	\$24,000	
Deduction used	\$31,000	\$24,000	\$31,000	\$24,000	\$110,000

Difference in deductions

\$14,000

Consider a donor advised fund for bunching gifts

A donor advised fund (DAF) offers an easy way to make gifts over multiple tax years for tax purposes. Contributions to the DAF are deductible just as though the donation was made to a qualified charity, funds can be invested according to your recommendations and grants can be dispersed according to your suggestions. By using a DAF, you can “bunch” charitable gifts, maximize tax savings and continue your consistent support of favored charities.

Call to action

To discuss how a donor advised fund may fit into your overall philanthropic and tax planning goals, contact your RBC Wealth Management® financial advisor today.