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PRIVATE WEALTH

Bunching Charitable Gifts to Maximize Tax Savings

Current tax law eliminates most itemized deductions on personal income tax returns but makes available a standard deduction of $12,550 per person. This means many individuals will not need to itemize to receive the largest possible income tax deduction, but charitably-minded persons can still consider bunching charitable gifts over a period of years to make these gifts more tax-effective.

What is bunching?

Bunching is the grouping of charitable gifts one intends to make over a future period into a single year so the charitable deduction is large in the year of gifting and zero in the years no gifts are made.

How does bunching work?

The taxpayer reviews their anticipated charitable giving for the current and future year(s),

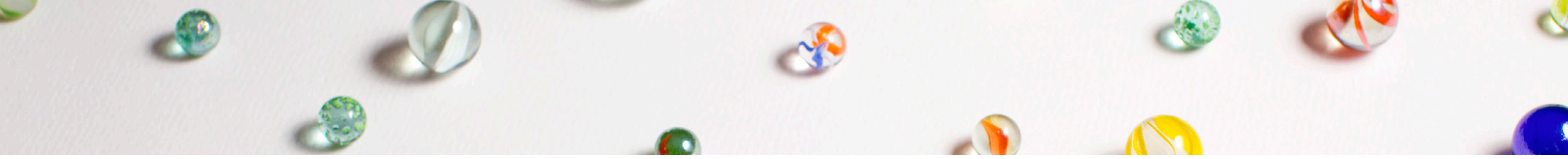
Then bunches and pays all the Year 1 and Year 2 contemplated gifts in Year 1

Year 1
In Year 1, the taxpayer itemizes deductions to reduce taxable income.

Year 2
In Year 2, the taxpayer makes no further charitable donations and uses the standard deduction on the Year 2 income tax return.

Bunching is not tax-effective for taxpayers with aggregate noncharitable deductions greater than the $12,550 standard deduction for individuals or $25,100 for married couples. Nor is it effective if aggregate deductions, including bunched charitable gifts, are not more than the standard deduction. Deductions which count toward aggregate deductions include:

- Medical deductions greater than 7.5% of income
- $10,000 of state and local income and/or property tax
- Home mortgage interest expense (may be limited)
- Investment interest expense
- Casualty losses incurred in a federally declared disaster area



What is the tax savings?

The tax savings is generated by using the maximum standard deduction in the years no charitable gifts are made. For example, a married taxpayer's joint standard deduction is $25,100. If a married taxpayer's only annual non-charitable deduction is $10,000 of state tax, and the taxpayer generally makes charitable gifts of $25,000 in each year, it makes sense to "bunch" the Year 1 and Year 2 gifts together for one larger $50,000 gift. Year 1 tax would be reduced by a deduction for bunched charitable gifts of $50,000. In Year 2, a tax savings is generated by the "excess" standard deduction of $15,100 ($25,100 less $10,000 state income tax deduction). The tax savings is equal to $15,100 times their marginal tax rate of income tax. A couple in the 25% bracket would save $3,775.

Can a taxpayer bunch more than two years of charitable donations?

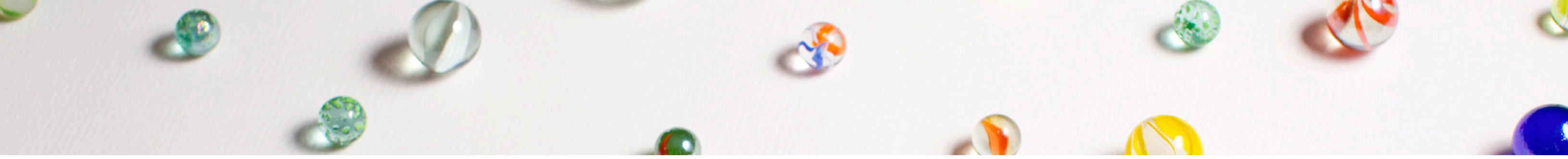
Most certainly, but often it is hard to predict future charitable gifts. In any case, where a donor is not entirely certain of the amounts or recipients of future year donations, a Donor Advised Fund (DAF) is the most effective and convenient way to bunch a large charitable donation today.

A contribution to a DAF of appreciated securities owned for more than one year is deductible at market value in an annual amount up to 30% of adjusted gross income. The donor retains flexibility to make any number of payments to charities, through the DAF, in amount(s) of the donor's choosing over a period of years. A large charitable gift through a DAF today could easily accommodate four or five years of future giving and create the tax savings discussed above for each non-gift year. A comprehensive giving plan may anticipate, for example, a significant DAF gift every four or five years. As with many tax-saving techniques, however, individual circumstances must be taken into consideration, and tax projections should be run in each instance to fully understand the impact personally.

A simple illustration

Few of us have lives this uncomplicated, but this example illustrates the technique. Jane and Joe have aggregate earned income of $250,000 annually and $25,000 of investment income. They have no mortgage but pay state income taxes and property tax greater than $10,000 annually. They give faithfully to their favorite charities, about $25,000 per year.

	No Bunching Each Year	Bunching Year 1	Bunching Year 2
Wage Income	$250,000	$250,000	$250,000
Investment Income	$25,000	$25,000	$25,000
Deduction Taken	$35,000	$60,000	$24,200
Comprised of:			
Standard Deduction	$0	$0	$25,100
State Tax Deduction	$10,000	$10,000	$0
Charitable Deduction	$25,000	$50,000	$0



Over a period of two years, Jane and Joe take $70,000 in deductions if they decide not to bunch charitable gifts. With bunching, however, their aggregate deductions over a two-year period total $85,100. The additional $15,100 in deductions represents a tax savings of $3,775 at a marginal tax rate of 25%, or $5,587 at a marginal tax rate of 37%. If a high-income taxpayer had no deductions other than charitable deductions, the maximum annual savings might be as much as $9,200 (the $25,100 standard deduction taken in non-gift years x the maximum 37% tax rate).

To learn more, contact your Glenmede Wealth Advisor or visit us at Glenmede.com.

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