Bunching

A smart charitable giving strategy for when you love your community a whole BUNCH

What is Bunching?

Bunching is a great way to enhance your charitable deduction and take advantage of the current tax law that significantly increased the standard deduction. Paying multiple-year expenses, particularly charitable gifts, by "bunching" them into one year can provide added tax benefits. Combine this strategy with a non-endowed donor advised fund and you really have a winning plan.

Definition & Description

The Tax Advisor website describes bunching as when taxpayers "combine multiple years of 'normal' annual charitable contributions into a single year." During the years in which bunching occurs, the charitable deduction combines with other itemized deductions to increase the likelihood of the taxpayer exceeding the standard deduction.

Bunching donations **directly** to charities gives the donor the tax benefits, but may cause greater volatility for the charity's revenue stream. They may receive surpluses and shortfalls in bunching and non-bunching years from their donors, making it much more difficult for them to accurately budget and fundraise.

The solution for both taxpayers and charities is a Donor Advised Fund. This allows the taxpayer to receive the full tax benefit of bunching, but also gives them time to advise grants to multiple charities from their fund gradually instead of in one lump sum.

The combination of a Donor Advised Fund and bunching is a great strategy for optimizing your charitable deduction and continuing to support the charities you love.

Donate a lump sum for your next two or more years of charitable donations to a Donor Advised Fund at Marion Community Foundation

Get a tax deduction for the amount over the standard deduction on your current year taxes; plus, take the standard deduction in future years.

Advise grants to the charities and causes of your choice from your Donor Advised Fund with no time limit

Want More Information?

We welcome your call and those of your financial advisors.

504 South State Street, Marion, Ohio 43302
740-387-9704
www.MarionCommunityFoundation.org
MARION COMMUNITY FOUNDATION

Without Bunching	**2025**	**2026**	**2027**	**Total**
Charitable contribution	$10,500	$10,500	$10,500	$31,500
State & Local tax	$10,000	$10,000	$10,000	
Tax prep, medical, mortgage, etc.	$ 3,000	$ 3,000	$ 3,000	
Total of itemized deductions	$23,000	$23,000	$23,000	
Standard Deduction	$31,500	$32,200	$32,200	
Deduction Used	$25,100	$25,900	$27,700	$78,700
Tax Savings @ 32% rate	**$ 8,032**	**$ 8,288**	**$ 8,864**	**$25,184**

With Bunching	**2021**	**2022**	**2023**	**Total**
Charitable contribution	$30,000	$ 0*	$ 0*	$30,000
State & Local tax	$10,000	$10,000	$10,000	
Tax prep, medical, mortgage, etc.	$ 3,000	$ 3,000	$ 3,000	
Total of itemized deductions	$43,000	$33,000	$13,000	
Standard Deduction	$25,100	$25,900	$27,700	
Deduction Used	$43,000	$35,900	$27,700	$96,600
Tax Savings @ 32% rate	**$13,760**	**$ 8,288**	**$ 8,864**	**$ 30,912**
			TOTAL TAX SAVINGS	**$ 5,728**

**Use the contribution to your donor advised fund in 2021 to make grant distributions to your favorite charities in 2022 and 2023.*

The illustration above shows how bunching works. In the example "Without Bunching," let's look at married taxpayers, Les & Bea Normal. They generously donated a total of $10,000 per year to their favorite charities and used the standard deduction on their tax returns. The example shows they donated $30,000 in those three years, but since their total deductions in each year were less than the standard deduction, they were limited to claiming the standard deduction in each of the three years. Using only the standard deduction, they reduced their taxes a total of $25,184 during those three years.

Now, let's look at the second scenario in which Phil & Ann Thropy use **bunching**. They also typically donated a total of $10,000 per year to their favorite charities. In 2021, however, they decided to **bunch** their charitable donations to increase their tax savings. So, in 2021, they donated $30,000 to their **non-endowed donor advised fund** at Marion Community Foundation. That gave them the ability to itemize their deductions on Schedule A of their tax return, which netted them a savings of $5,728 on their taxes that year! In 2022 and 2023, they made no additional charitable contributions and took the standard deduction on their tax returns. Instead, they used their **donor advised fund** to distribute grants totaling $10,000 to their favorite charities. Same result for the charities, but a resulting in an **extra $5,728** in their pockets to spend as they wish! In 2024, they'll start the process over again with another large donation to their donor advised fund. **Smart.**

Are you 70-1/2 or older?

Use your Required Minimum Distribution from your IRA to make this gift and the whole donation is tax-free. Call us for more information at 740-387-9704.