

ITEMIZED DEDUCTION BUNCHING



HOW TO PLAN AFTER THE 2018 TAX REFORM

Starting in 2018, new tax laws will be changing the way most individuals claim on their taxes. With lower itemized deductions and a higher standard deduction, it is estimated that over 90% of taxpayers will claim the standard deduction each year.¹ This means that charitable donations will not be deductible for most taxpayers. The major tax changes are below:

MAJOR CHANGES TO TAX RETURNS

HIGHER STANDARD DEDUCTION:

- + \$5,600 increase for single claimers
- + \$11,300 increase for married filing joint claimers

REDUCTION IN ITEMIZED DEDUCTIONS:

- Deduction for State and Local Taxes (SALT) limited to \$10,000² (No limit before)
- Deductibility of home mortgage interest reduced to \$750,000 of mortgage indebtedness (previously \$1,000,000)
- Elimination on deductibility of home equity interest
- Elimination of miscellaneous itemized deductions

How can we take advantage of a high standard deduction and lower itemized deductions over time? Consider the two major options below.

WITHOUT TAX PLANNING			WITH TAX PLANNING		
Year	Charitable Donation	Tax Deduction	Charitable Donation	Tax Deduction	
1	\$10,000	\$24,000	\$30,000	\$42,000	
2	\$10,000	\$24,000		\$24,000	
3	\$10,000	\$24,000		\$24,000	
4	\$10,000	\$24,000	\$30,000	\$42,000	
5	\$10,000	\$24,000		\$24,000	
6	\$10,000	\$24,000		\$24,000	
7	\$10,000	\$24,000	\$30,000	\$42,000	
8	\$10,000	\$24,000		\$24,000	
9	\$10,000	\$24,000		\$24,000	
Net to Charity: \$90,000 Net Tax Deduction: \$216,000			Net to Charity: \$90,000 Net Tax Deduction: \$270,000³		

CONCLUSION

With tax planning, families can strategically bunch several years of donations into one year, enabling them to itemize in contribution years, and take the standard deduction in off years.⁴

1 IRS Statistics of Income Public Use File, 2009 and CPS 2014. Interpreted by Forbes Contributor Ryan Ellis
 2 SALT Deduction includes real and personal property taxes, state and local income taxes and general sales taxes
 3 Assumes non-charitable itemized deductions of \$12,000 per year
 4 Please see our additional one pager, Benefits of Donor Advised Funds for more details