Donor-Advised Fund

Using a donor-advised fund to bunch charitable giving

Prior to the 2018 tax year, Sam and Sara Stack were able to offset much of their tax burden through charitable giving to their donor-advised fund. However, when the Tax Cuts and Jobs Act set the standard deduction that taxpayers can claim to what is now $14,600 for single filers and $29,200 for those filing jointly, the Stacks were unable to realize any tax savings from their annual donations of $10,000.

The Stack's financial advisor recommended a strategy called bunching that was able to cut their tax bill during odd years, while allowing them to take the standard deduction during even years.

On their 2024 tax filing, the Stacks expect to claim the maximum state and local tax deduction of $10,000. The couple also expect to pay $2,000 in eligible mortgage interest, which is tax deductible. To surpass the $29,200 standard deduction, they have to make a charitable contribution of more than $17,000. The couple usually makes $10,000 in charitable donations within the year, so they contribute double that amount ($20,000) to their donor-advised fund this year to increase their tax deduction.

The Stacks will then take the standard deduction on their 2025 taxes and their $10,000 annual charitable donation will come from their donor-advised fund, freeing up cash for other purposes.

Additionally, most of the changes applicable to individuals in the new tax law expire after 2025, so depending on future tax law, this bunching strategy may not be needed for the long term.

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How it works

Outside of charitable contributions, taxpayers are allowed the following deductions:

- Amounts paid for medical and dental costs in excess of 7.5% of your adjusted gross income.
- Up to $10,000 in state and local taxes including income and property tax.
- Interest on a mortgage up to $750,000 for homes purchased after December 15, 2017.
- Interest on a mortgage up to $1,000,000 in mortgage interest for homes purchased before December 16, 2017, can be deducted from your federal tax bill.

Filers who fall below the standard deduction threshold after subtracting items from the qualified list can still meet or exceed the standard deduction amounts by increasing their charitable giving.

Combining two or more years of charitable contributions made to a DAF to push the tax deduction over the $14,600 threshold for single filers and $29,200 for those filing jointly, individuals can take alternate years for the standard deductions and still recommend grants to their favorite charities on an annual basis.

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