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Lost Your Charitable Income Tax Deduction? Get It Back By Bunching

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As Director of Charitable Gift Planning at the Jewish Community Foundation of Los Angeles, I often come across misconceptions about last year's changes in the tax code and its impact on the charitable income-tax deduction. Many people incorrectly believe that the charitable income tax deduction is no longer available. Even more frequently, people incorrectly take for granted that they'll continue to get income tax benefits for their charitable giving.

So is it available or isn't it? The good news is the charitable income tax deduction remains—and has even increased—for people who itemize their deductions. The bad news is most taxpayers will no longer qualify for the deduction without a little advance planning.

Itemizing Versus the Standard Deduction

Every year you (or someone on your behalf) decide whether to itemize deductions on your income taxes, or take the standard deduction. To justify itemizing, your total deductions for the year need to exceed the applicable standard deduction which was increased under the new tax laws and rises again slightly in 2019. For the current year, the standard deduction is \$12,200 for individuals and

\$24,400 for joint-filers. (For married couples filing jointly where one spouse is age 65 or over, the standard deduction is \$25,300; it increases to \$26,000 if both filers are over 65.)

Without getting into the weeds of tax law, here is what's important to understand: The increase in the standard deduction, combined with the reduction or elimination of many itemized deductions, means that most people will no longer be itemizing. And, without itemizing on your 2019 tax return, you won't be able to claim any tax benefit for your charitable giving.

Charitable-Gift Bunching Using DAFs

Fortunately, there is a simple, four-step strategy called bunching that you can use to retain your charitable tax deduction.

First, you estimate the amount of charitable gifts you plan to make over the next two or three years.

Second, you contribute that amount into a donor-advised fund (or DAF), an easily established charitable giving account that can be opened with contributions as low as \$5,000 at the Jewish Community Foundation.

Third, you claim a charitable deduction for the entire contribution made to your DAF on the current

year's tax return. Your contribution to a DAF qualifies as a charitable deduction, while you maintain a high degree of discretion to recommend gifts from it to charities of your choice on your timeline.

Finally, simply continue your regular giving from your DAF, and take the standard deduction on your tax return in the subsequent year or two.

If you are charitable and would otherwise be taking the standard deduction on this year's tax return, following these steps allows you to maintain your normal giving patterns while preserving your full charitable tax benefits. This is a win-win for both you and the causes you care about, which will benefit from continuing to receive consistent contributions.

Meet Diane: A Donor's Story

Let me illustrate bunching by using someone I've worked with as an example. Diane pays dues to her synagogue and makes regular gifts in support of cancer research, her alma mater, and a local food pantry. She also occasionally makes gifts to charities her friends ask her to support, or in response to unforeseen crises. Combined, she donates approximately \$5,000 to \$7,000 a year.

After the new tax law passed, Diane inquired whether she can still receive a tax deduction for her charitable giving. I explained that it depends on whether she will be itemizing her deductions or taking the new, higher standard deduction. After speaking with her accountant, Diane confirmed that she would likely take the standard deduction this year, even though she had always itemized.

That's when I suggested that she consider bunching.

Diane and her accountant determined that she could put \$17,500 into a DAF this year. By setting aside (or "bunching") the funds she intends to use for charitable giving over the next two or three years, Diane qualifies for an immediate tax deduction for the full \$17,500 contributed to her DAF. She can then make gifts from her DAF over several years.

Diane will itemize her deductions this year, but will take the standard deduction the following two years. Since she won't be making additional charitable gifts outside of her DAF, she won't need the charitable deduction during those years. In effect, Diane can maintain her

regular giving patterns and continue to receive the full tax benefits for her giving.

Early Planning Broadens Your Options

Becoming aware of her options enabled Diane to plan an optimal strategy for her giving. If you may no longer be itemizing your deductions, it's not too late to do similar planning and retain your charitable tax benefits, too. Consult with your accountant and professionals knowledgeable in charitable-gift planning as soon as possible about whether bunching makes sense for you.

Keep in mind that using a DAF for bunching provides you the greatest flexibility, and also helps nonprofits maintain the stability needed for their important work in our community. Establishing a DAF at the Jewish Community Foundation of Los Angeles is a simple, straightforward process.

To learn more, please visit www.jewishfoundationla.org, call us at (323) 761-8704 or email development@jewishfoundationla.org.

About the author: Natella Royzman, Esq. is director of charitable gift planning for the Jewish Community Foundation of Los Angeles, which manages more than \$1 billion of charitable assets for 1,300 families and distributed \$115 million in grants in 2018 to causes locally, nationally and around the world.