Do You Have Questions About the New Tax Law Changes and Your Charitable Contributions?

marshfield area community foundation inc.

With the new changes to tax laws, you may no longer benefit from itemizing your deductions due to state and local tax deduction limits ($10,000/ year) and the doubling of the standard deduction (now $12,000 for individuals and $24,000 for married couples).

However, if you normally give to one or more non-profits each year and want to continue to support them, you may be able to receive a tax benefit under the new law by "bunching" your charitable contributions for two years in a single year, when you will itemize deductions. In the following year, you will make no (or small) charitable contributions and claim the standard deduction. By doing this, you will have more deductions over the two-year period than you would if you made the same charitable contribution amount in each of the two years.

The chart below illustrates how this works. It shows, with the assumed amounts of state and local taxes, mortgage interest and charitable contributions, that total deductions are increased by $5,000, from $48,000 to $53,000, over the two-year period by bunching the charitable contributions for the two years in a single year.

	PAY THE SAME	EVERY YEAR	BUNCHING	DEDUCTIONS
	Year 1	Year 2	YEAR 1	YEAR 2
Taxes	$10,000	$10,000	$10,000	$10,000
Mortgage Interest	7,000	7,000	7,000	7,000
Charitable Contributions	6,000*	6,000*	12,000**	————**
TOTAL DEDUCTIONS	$23,000	$23,000	$29,000	$17,000
Standard Deduction	$24,000	$24,000	$24,000	$24,000
Total Deduction over 2 Years	**$48,000**		**$53,000**	

*Taxpayer does not benefit from charitable contributions as the standard deduction is more beneficial.

**Taxpayer benefits from charitable contributions in Year 1 as this is more beneficial than the standard deduction. In Year 2 the standard deduction is more beneficial and no charitable gifts are made.

A **Donor Advised Fund** with the Marshfield Area Community Foundation (MACF) may be of help to you in conjunction with the bunching of charitable contributions. A contribution to such a fund is deductible in the year made, but you can decide in which years, and in what amounts, you want to recommend that distributions be made to charities from the fund. In other words, you can claim a tax deduction immediately and support your favorite charities in future years.

Another idea: If you are age 70 ½ or older, you are eligible to make charitable contributions directly from your IRA to help satisfy your required minimum distribution (RMD) amount for a given year. These contributions reduce your taxable income for the year, even if you don't itemize deductions. IRA distributions of this type cannot go to a donor advised fund, but you can set up a fund with MACF which names your favorite charities as beneficiaries or have the IRA distributions made directly to the charities.

We at the Community Foundation are here to help you. Please contact Amber at (715)384-9029 or email amber@marshfieldareacommunityfoundation.org. You should always consult your own tax advisor before employing any tax planning strategy.