Sam and Sara Stack

A strategic approach to impact

Sam and Sara Stack discovered that, if you look at your finances and charitable contributions on a year-by-year basis, you might be missing opportunities for impact and tax savings. Fortunately, their financial advisor thought beyond annual plans and crafted an every-other-year strategy that saved them money and increased their capacity to make a difference.

Prior the 2018 tax year, Sam and Sara offset much of their tax burden through charitable giving to a RenPSG Donor-Advised Fund they set up a few years ago. However, when the Tax Cut and Jobs Act set the standard deduction that taxpayers can claim to $12,000 for single filers and $24,000 for those filing jointly, the Stacks were unable to realize any tax savings as a result of their annual $8,000 donations. Not to worry: The Stacks' financial advisor knew that, by following a strategy known as "bunching," the Stacks could cut their tax bill during odd years while still taking the standard deduction during even years.

Here's how it worked: On their 2018 tax filing, Sam and Sara claimed the maximum state and local tax deduction of $10,000. In addition, they paid $2,000 in eligible, tax-deductible mortgage interest in that year ... but they still fell short of the $24,000 standard deduction. To remedy this, they needed to make a charitable contribution of more than $12,000. Knowing they usually make $8,000 in charitable donations within the year, their advisor recommended that they contribute double that amount ($16,000) to their Donor-Advised Fund, increasing their tax deduction by $4,000.

The result: The Stacks could take the standard deduction of $24,000 on their 2019 taxes and repeat the bunching strategy with their charitable gifts in 2020. While changes applicable to individuals in the new tax law expire after 2025 – and, therefore, this bunching strategy might not be needed for the long term – the Stacks can continue to alternate the bunching and standard deduction every other year until tax law does change.

HOW IT WORKS

- Outside of charitable contributions, taxpayers are allowed the following deductions:
    - » Amounts paid for medical and dental costs in access of 7.5% of adjusted gross income for tax years 2017 and 2018. For tax year 2018, that rate increases to 10%.
    - » Up to $10,000 in state and local taxes including income and property tax (SALT).
    - » Mortgage interest up to $750,000 for homes purchased after December 15, 2017.
    - » Up to $1,000,000 in mortgage interest for homes purchased before that date can be deducted from your federal tax bill.
- Filers who still 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 $12,000 threshold for single filers and $24,000 for those filing jointly, individuals can then take alternate years for the standard deduction and still recommend grants to their favorite charities on an annual basis.

This example is hypothetical and for educational use only. The situations, tax rates or return numbers do not represent any actual clients or investments. There is no assurance that the rates depicted can or will be achieved. Actual results will vary. Please consult with legal and tax counsel about the suitability.