

BUNCHING: SAVING TAXES WHILE GIVING BACK

We have become accustomed to the higher standard deduction and far fewer taxpayers finding it beneficial to itemize. But many have shifted their giving strategy resulting in income tax savings and more dollars available for charitable giving through the concept of bunching.

Consider the hypothetical example of Margarete and Jose Modina.

The Modinas have invested wisely and spent prudently, and typically donate \$14,000 each year as a way to give back, to places such as their church, their alma maters, and several human services organizations here in the greater Milwaukee area.

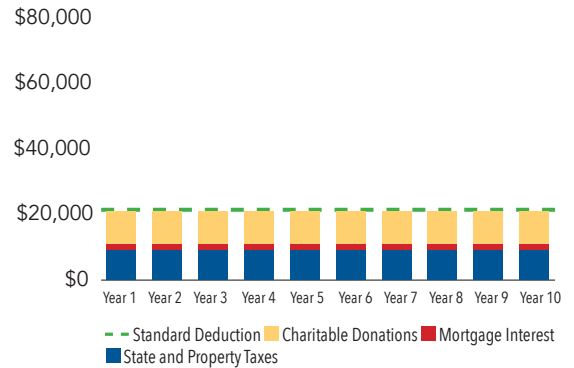
Prior to the standard deduction increase, the Modinas claimed itemized deductions of \$27,000, which was made up of \$10,000 in state income and property taxes, \$3,000 in mortgage interest, and \$14,000 in charitable contributions. In 2023, the higher standard deduction of \$27,700 meant the Modinas no longer benefit from itemizing their deductions. Their \$14,000 contributions to charity will no longer generate any tax savings.

Margarete heard a friend talking about bunching contributions into a donor advised fund at the Greater Milwaukee Foundation, so she contacted GMF. For a couple like the Modinas, creating a donor advised fund at the Greater Milwaukee Foundation by bunching several years of charitable gifts into a single year will help them carry out their charitable giving more efficiently AND realize a tax savings. After consulting with their tax adviser, the Modinas decide to create a donor advised fund at GMF with appreciated stock worth five years of future charitable gifts (\$14,000 x 5), or \$70,000. As a result, the Modinas claim \$83,000 (\$70,000 + \$10,000 + \$3,000) in itemized deductions on their current tax return. It's the same \$10,000 in state and property taxes and \$3,000 in mortgage interest, but it now includes a \$70,000 charitable deduction for their gift to their donor advised fund, allowing them to itemize and recognize additional tax savings versus taking a standard deduction.

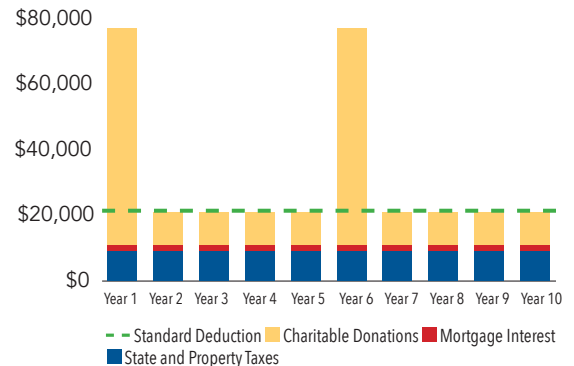
The Modinas use their donor advised fund to make their charitable gifts over the next few years. During those years, they will claim the standard deduction on their income tax return. In the fifth year, the Modinas might decide to replenish their donor advised fund by bunching and itemizing again, thereby repeating the cycle. This simple but powerful tax strategy gives the Modinas an additional \$110,600 in tax deductions over 10 years.

The savings can be even greater if the gifts are made with appreciated securities. In that case, the Modinas will also avoid capital gains taxes.

WITHOUT BUNCHING *Standard Deduction Each Year*



WITH BUNCHING *Large Deduction Every 5 Years, Standard Deduction All Other Years*



Bunching charitable gifts through a donor advised fund at GMF is a simple but powerful tool to reduce income taxes for charitable families and individuals. Donor advised funds are easy to set up and can be customized to your charitable intentions.

Talk with your financial adviser to determine if bunching charitable gifts into a donor advised fund would be of benefit to you. We are happy to provide assistance in customizing a fund that works for you. Please contact the Foundation's gift planning team with questions at 414.272.5805.