

How to Write Off Donations Under the New Tax Plan: Consider ‘Bunching’

[Your Money Adviser](#)

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Photo Credit: Minh Uong/The New York Times

The [tax plan approved by Congress](#) nearly doubles the standard deduction for individuals and families. That could simplify the filing process for millions of Americans, but it will complicate the giving strategies for many who have made a habit of deducting their charitable contributions.

Under the new bill, the standard deduction — the amount taxpayers can subtract from their taxable income without listing, or itemizing, deductions on their tax returns — will rise to \$12,000 for individuals and \$24,000 for married couples. That means people who are close to the cutoff may stop giving altogether, as they may no longer see tax savings from their giving. Or they might consider pooling their gifts in certain years to beat the expanded standard amount and maximize their tax savings through itemization.

Earl Molander, a retired business professor in Portland, Ore., has given the situation a lot of thought. Mr. Molander said he donates regularly to a nonprofit organization that funds college scholarships for students at his hometown high school in Marinette, Wis., while his wife supports various health and social causes. They will continue giving under the new tax rules, he said, but will plan to make their donations and itemize their gifts every other year, when they can beat the standard deduction. This year, for instance, they will double up on contributions. Then in 2018, the couple will skip donating and take the standard deduction; in 2019, they’ll make gifts and itemize, and so on.

“It’s what they call ‘bunching,’ in accounting terms,” Mr. Molander said of his strategy. Combined with other tweaks in their schedule of paying property taxes, he said, he estimates the approach will allow the couple to save about \$700 a year in taxes over the next four years.

These “bunching” strategies, however, leave open a big question. What happens to the charity or nonprofit organization, which has relied on a steady stream of donations to operate every year?

Enter what’s called the donor-advised fund.

These funds — sort of like personal private foundations, without all the legal and accounting costs — allow contributors to donate money and take a tax deduction in the same year, then pay the money to selected charities over time.

Someone could “bunch” several years of donations to a donor-advised fund into one year, and take the tax deduction, but then have the fund pay out the gift annually in equal amounts. The charity would get the same amount each year, even in years when the donor did not itemize deductions.

The donor does not directly control the money once deposited, but tells the fund’s administrator how to spend it, by selecting an eligible charity and an amount to be donated. The money may also be invested depending on the distribution to the nonprofit group, potentially increasing the amount available for contributions.

“A donor-advised fund is an ideal solution for this,” said Timothy M. Steffen, director of advanced planning at Baird’s private wealth management group. Donors can make gifts of cash and securities, such as appreciated stock. Donors, of course, must assess whether they can afford to accelerate donations or whether doing so would impair their cash flow, Mr. Steffen said.

Donor-advised funds have been around for years, particularly at community foundations aiming to encourage giving to local causes. But they have become increasingly popular over the last decade with the growth of national funds affiliated with big financial services companies like Fidelity, Vanguard and Charles Schwab. Fidelity Charitable, for instance, received more than \$4 billion in donations in 2016, topping United Way Worldwide, which Forbes has ranked as the largest nonprofit organization by private donations.

The funds are not without controversy. Some organizations are wary of them, because there is no firm requirement for the funds to [actually pay out the money](#) within a certain period.

And there are also fees for donors to consider. Fidelity Charitable, for instance, charges an annual administrative fee of at least \$100, plus additional investment fees. A chart on its website says that a \$10,000 balance would incur annual fees of about \$127, compared with hypothetical gains of \$190, based on a conservative investment.

But there is no doubting the funds’ popularity. The National Philanthropic Trust, which prepares an annual report tracking the funds, said [there were nearly 285,000 donor-advised fund accounts in 2016](#), an increase of about 7 percent over the prior year. And according to an analysis by The Chronicle of Philanthropy, annual contributions to the largest 85 donor-advised funds nearly tripled in value from 2008 to 2013.

If you might be considering “bunch” investing in this way, here are answers to some common questions about donor-advised funds:

Q. When is the deadline for contributing to a donor-advised fund for a 2017 tax deduction?

The deadline is Dec. 31. But as a practical matter, it is wise to act earlier, depending on how the contribution is made, according to financial advisers and managers of donor-advised funds. If someone is establishing a fund affiliated with a company where they already do business, transferring funds is relatively simple. Fidelity Charitable, for instance, says assets can be transferred from Fidelity Investments over the phone or online [as late as Dec. 31](#).

But if you plan to pay by check, keep in mind that Dec. 31 is a Sunday, so you will want to document that it was mailed on Dec. 30 to make sure your contribution qualifies for a 2017 tax deduction. The recommended date for some types of contributions has already passed at various donor-advised funds. Vanguard Charitable, for instance, had recommended that securities held outside of Vanguard be contributed by Dec. 15.

There is still time to use a donor-advised fund, but it’s best to act sooner to avoid last-minute snafus and make sure a gift is counted for 2017 for tax purposes. “I would not wait until the middle of next week,” said Howard Hook, a financial planner and principal at EKS Associates in Princeton, N.J.

Q. Is there a minimum donation to establish a donor-advised fund?

Minimums vary, but an initial donation of at least \$5,000 is typical; subsequent donations may be smaller. (Funds usually set a minimum gift amount as well, such as \$50.)

Q. Do I get a tax deduction when I make a gift from my donor-advised fund?

No. You take the tax deduction when you contribute the money to the fund; you do not get another one when the money is actually sent to your selected charity.