

Charitable Bunching with a Donor-Advised Fund

Bunching charitable gifts into a single year using a Donor-Advised Fund can maximize itemized deductions, reduce taxable income, and maintain consistent giving over time.

How it Works:

- 1 Combine Donations**
Consolidate multiple years of planned giving into one large gift to your Donor-Advised Fund.
- 2 Capture a Larger Deduction**
Use the single large contribution to exceed the standard deduction threshold and maximize your itemized deductions for that tax year.
- 3 Give Over Time**
Continue supporting your favorite charities from the Donor-Advised Fund in future years, while taking the standard deduction going forward.

Important Changes for 2026 Tax Year

New legislation will impose additional considerations starting in the 2026 tax year:

- **0.5% Annual Gross Income (AGI) Floor for Charitable Deductions:** Only the portion of charitable contributions that exceed 0.5% of AGI will be deductible. For example, a married couple with AGI of \$500,000 may only deduct contributions exceeding \$2,500.
- **35% Cap on Tax Benefit of Itemized Charitable Deductions:** The tax savings from itemized charitable deductions will be limited to 35%, even for taxpayers in higher marginal tax brackets. For example, a married couple in the 37% tax bracket will be limited to a tax benefit of \$35,000 on a donation of \$100,000.

2025 Tax Year Case Study: Married Couple Using Charitable Bunching

Without Charitable Bunching -

A married couple donates \$12,000 per year to several different charities. They itemize their taxes each year, accounting for \$12,000 in annual donations.

| Years 1-5 | |
|---------------------------------|-----------|
| Donations | \$12,000 |
| State and Local Taxes | +\$12,000 |
| Mortgage Interest | +\$8,000 |
| Total Yearly Itemized Deduction | =\$32,000 |
| Standard Deduction | -\$31,500 |
| Additional Deduction | =\$500 |

Total Donations over 5 years: \$60,000
Total Tax Deduction over 5 years: \$160,000

With Charitable Bunching -

A married couple donates \$12,000 per year. By bunching their charitable donations, the donors contribute 5x their annual donation, generating a larger tax deduction in the first year.

| Year 1 | |
|---------------------------------|-----------|
| Donations | \$60,000 |
| State and Local Taxes | +\$12,000 |
| Mortgage Interest | +\$8,000 |
| Total Yearly Itemized Deduction | =\$80,000 |
| Standard Deduction | -\$31,500 |
| Additional Deduction | =\$48,500 |

In years 2-5, the donors claim the standard tax deduction.

| Years 2-5 | |
|-------------------------|-----------|
| Standard Deduction | \$31,500 |
| Years 2-5 Tax Deduction | \$126,000 |

Total Donations over 5 years: \$60,000
Total Tax Deduction over 5 years: \$206,000

In this example, we assume that \$60,000 in charitable donations in year 1 does not exceed 60% of the couple's AGI. In 2026, the 0.5% AGI floor and 35% tax benefit cap of itemized charitable deductions will come into effect.

Is Charitable Bunching Suitable for my Client?

Does the client make consistent annual charitable donations?

Yes

No

Will the sum of 2 or more years of donations exceed the standard deduction?

Yes

No

Does my client have the liquidity to front-load 2 or more years worth of donations?

Yes

No

Not suitable

Suitable