



# ITEMIZED DEDUCTION BUNCHING

## HOW TO PLAN AFTER THE 2018 TAX REFORM

Passed in December of 2017, under President Trump, the Tax Cut and Jobs Act (TCJA) changed the way most individuals claim deductions on their tax returns. With restricted, lower itemized deductions and a higher standard deduction, it is estimated that over 90% of taxpayers will claim the standard deduction each year.<sup>1</sup> The major tax changes are below:

### MAJOR CHANGES OF THE TAX CUTS AND JOBS ACT (TCJA)

#### HIGHER STANDARD DEDUCTION:

- Single: Increased the Standard Deduction from \$6,350 to \$12,000 (\$12,550 for 2021)
- Married Filing Jointly: Increased the Standard Deduction from \$12,700 to \$24,000 (\$25,100 for 2021)

#### REDUCTION IN ITEMIZED DEDUCTIONS:

- Capped the State and Local Tax (SALT) Deduction at \$10,000<sup>2</sup>
- Decreased the Home Mortgage Interest Deduction to \$750,000
- Eliminated the Home Equity Interest Deduction
- Eliminated Miscellaneous Itemized Deductions

## CASE STUDY

Itemized deduction bunching can be used to combat the effects of the TCJA. For the example below, assume a married filing jointly couple with \$10,000 of non-charitable itemized deductions per year. The standard deduction for married filing jointly in 2021 is \$25,100.

WITHOUT BUNCHING				
Year	Charitable Deduction	Other Itemized Deductions	Standard Deduction	Tax Deduction
1	\$10,000	\$10,000	\$25,100	\$25,100
2	\$10,000	\$10,000	\$25,100	\$25,100
3	\$10,000	\$10,000	\$25,100	\$25,100
4	\$10,000	\$10,000	\$25,100	\$25,100
5	\$10,000	\$10,000	\$25,100	\$25,100
6	\$10,000	\$10,000	\$25,100	\$25,100
7	\$10,000	\$10,000	\$25,100	\$25,100
8	\$10,000	\$10,000	\$25,100	\$25,100
9	\$10,000	\$10,000	\$25,100	\$25,100
10	\$10,000	\$10,000	\$25,100	\$25,100
11	\$10,000	\$10,000	\$25,100	\$25,100
12	\$10,000	\$10,000	\$25,100	\$25,100
<b>Totals</b>	<b>\$120,000</b>	<b>\$120,000</b>	<b>\$301,200</b>	<b>\$301,200</b>

WITH BUNCHING				
Year	Charitable Deduction	Other Itemized Deductions	Standard Deduction	Tax Deduction
1		\$10,000	\$25,100	\$25,100
2		\$10,000	\$25,100	\$25,100
3		\$10,000	\$25,100	\$25,100
4	\$40,000	\$10,000	\$25,100	\$50,000
5		\$10,000	\$25,100	\$25,100
6		\$10,000	\$25,100	\$25,100
7		\$10,000	\$25,100	\$25,100
8	\$40,000	\$10,000	\$25,100	\$50,000
9		\$10,000	\$25,100	\$25,100
10		\$10,000	\$25,100	\$25,100
11		\$10,000	\$25,100	\$25,100
12	\$40,000	\$10,000	\$25,100	\$50,000
<b>Totals</b>	<b>\$120,000</b>	<b>\$120,000</b>	<b>\$301,200</b>	<b>\$375,900</b>

## CONCLUSION

With the above tax planning approach, families can strategically bunch several years of donations into one year, enabling them to itemize in contribution years, and take the standard deduction in off years.<sup>3</sup> Tax planning must evolve with the changes in tax law and itemized bunching is a strategy that can be useful for individuals given the new, higher standard deduction.

<sup>1</sup> IRS Statistics of Income Public Use File, 2009 and CPS 2014. Interpreted by Forbes Contributor Ryan Ellis

<sup>2</sup> SALT Deduction includes real and personal property taxes, state and local income taxes and general sales taxes

<sup>3</sup> Please see our additional one pager, Benefits of Donor Advised Funds for more details

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