Stretch Your Philanthropic Impact: A Guide to Strategic Giving

Because writing an occasional check for your favorite charity only goes so far.

Each year, you dutifully write a check here and a check there in support of your favorite animal rescue shelter or disaster-relief agency. But as your mailbox fills up with one charitable solicitation after another, your support for charity may start feeling unfocused—or simply not very strategic.

Here's good news: You don't have to be Warren Buffett or Bill Gates to take your philanthropy to the next level. With a little long-term planning and financial discipline, you can make your charitable contributions not only more impactful, but also more tax-efficient.

The road to strategic philanthropy starts with four progressive steps that can help you extend your philanthropic reach, build your legacy, and offer potential tax breaks along the way.

Step 1: Exceed the Standard Deduction

The 2017 Tax Cuts and Jobs Act (TCJA) significantly raised the standard deduction—a change that cut the number of taxpayers itemizing their charitable contributions in 2018 by more than half, from 21% to about 9% of households.[1] The TCJA also capped the deduction for state and local taxes at $10,000 and eliminated some other itemized deductions.

That's why leveling up your philanthropic efforts should start with the simple goal of earmarking contributions and other deductions that exceed the IRS standard deduction (see table below for current amounts). Combining a higher level of charitable dollars with other deductions can help you exceed these threshold levels so that it makes sense to itemize.

IRS Standard Deduction Limits

	2024 Deduction	2025 Deduction
Single	$14,600	$15,000
Married Filing Jointly	$29,200	$30,000
Head of Household	$21,900	$22,500

Source: IRS.gov

Key Points

- Leveling up your philanthropic efforts should start with the simple goal of earmarking contributions and other deductions that exceed the IRS standard deduction.
- Bunching donations is a strategy that allows charitable givers to consolidate their contributions for two years into a single tax year to maximize their itemized deductions.
- Donor-advised funds are charitable-savings accounts that are set up to distribute funds to your favorite charities while you earn tax deductions in the years you contribute.

For example, consider stretching your giving budget to $30,000 or more to make itemizing worthwhile. If you paid at least $10,000 in state and local property taxes but were discouraged from itemizing them because of the high standard deduction, a charitable contribution budget of $20,001 combined with your $10,000 tax bill will put you over the standard-deduction limit.

It's critical to keep detailed records of all donations, including receipts for cash contributions over $250 and appraisals for noncash donations, to substantiate your deductions on your tax return. The IRS allows most individuals to deduct up to 60% of their adjusted gross income.

Step 2: Bunch Your Charitable Contributions

Bunching donations is a strategy that allows charitable givers to consolidate their contributions for two years into a single tax year to maximize their itemized deductions.

Example: Joe and Mary regularly pledge $9,000 to their church each year and have $18,000 in other deductible expenses, including mortgage interest and taxes. That's $27,000 in potential deductions, just short of the $29,200 standard deduction. To implement a bunching strategy, they double their church donation from $9,000 to $18,000. That gives them a total of $36,000 in current-year deductible contributions—or, $6,800 more than they could claim with the standard deduction.

Bunching has a number of benefits, both for you and for the charities of your choice. For you, these benefits include:

- **Maximized tax deduction** — By increasing your giving beyond the IRS threshold, you can also include other deductions that wouldn't have made sense to itemize otherwise.
- **Increased giving power** — Tax savings from itemizing may lead to more disposable income for future charitable giving.
- **Strategic legacy building** — Bunching encourages you to think strategically about your giving.

For charities, bunching can offer a stable source of funding and, potentially, a deeper relationship between donors and their favorite nonprofit organizations.

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Step 3: Consider Establishing Tax-Advantaged Vehicles

The next step is to embrace one of several tax-efficient structures designed for strategic, long-term charitable giving. Two strategies may be especially useful:

- **Donor-Advised Funds (DAFs):** DAFs, or charitable investment accounts, have sometimes been called 401(k) accounts for charities. When you set up a DAF, you make irrevocable charitable contributions on a schedule that fits your needs while receiving an immediate tax deduction in the year the donations are made. Donations can be in the form of cash, securities, or other assets. You choose where to direct the funds, and funds not yet earmarked for specific nonprofit donations can be invested for tax-free growth for many years before you donate it.

  DAFs are run by a variety of organizations ranging from local community groups and national charitable foundations (e.g., the American Red Cross) to financial firms (e.g., Vanguard, Schwab, and Fidelity). DAFs are set up to distribute funds to the charities of your choice and are staffed and equipped to handle administrative tasks and help you spread your generosity over a range of worthy nonprofits, saving you time and effort.

  DAFs also help simplify tax reporting because you receive one tax form for the total amount you contribute to the DAF each year. You no longer have to deal with charitable contribution receipts from each organization that you support since they receive payment directly from the DAF.

- **Charitable Trusts:** Charitable trusts are legal arrangements that allow you to donate assets to a charity while still receiving income or tax-deduction benefits during your lifetime. A trust typically provides a partial tax deduction in exchange for receipt of irrevocable assets (cash, securities, private stock, business interests, real estate, etc.) and typically provides a steady stream of tax-exempt investment income. After a specified timespan or the death of any remaining income beneficiaries, the value of the remaining assets is distributed to charities designated when the trust is established.

  Charitable trusts can be complicated and are subject to a variety of tax contingencies depending on how they're set up. It's best to seek help from financial or tax professionals to explore the benefits and drawbacks.

Step 4: Reduce Taxability of Required Minimum Distributions

If you are eligible to take a required minimum distribution (RMD), you can reduce your taxable income while qualifying toward your RMD by directing up to $100,000 to a qualified 501(c)(3) charitable organization of your choice.

Your retirement-account provider—not you—must issue the qualified charitable distribution (QCD) on your behalf by December 31 for the tax year. A QCD could be advantageous for high earners concerned about being bumped into a higher tax bracket or being forced to pay higher income-adjusted Medicare premiums due to the amount of their RMD.

Talk to your financial or tax professional to develop a gifting strategy that works for you and the charitable causes close to your heart.

[1] "How Did the TCJA Affect Incentives for Charitable Giving?," Tax Policy Center, 1/24.

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