DALLAS SEMINARY FOUNDATION

Itemizing vs. the Standard Deduction

One of the questions American taxpayers face each year is whether to itemize their income tax deductions or take the Standard Deduction. The Standard Deduction is a flat dollar amount that the IRS allows the taxpayer to claim in lieu of tracking, recording, and documenting actual qualifying expenses.

The Tax Cuts and Jobs Act of 2017 nearly doubled the Standard Deduction[1]. As a result, more people are taking the Standard Deduction rather than itemizing.

Filing Status	Standard Deduction 2023[2]
Single; Married Filing Separately	$13,850
Married Filing Jointly	$27,700
Head of Household	$20,800

Taking the Standard Deduction means that no additional income tax deduction can be taken for charitable contributions in that tax year. Granted, opting for the Standard Deduction provides a nice offset to the tax bill. But wouldn't it be nice if you could still somehow deduct those donations?

Maybe you can.

Bunching Deductions

If your itemized deductions come close to the Standard Deduction but do not quite exceed that figure, you might benefit from "bunching" your deductions in certain years.

Let's begin by listing those expenses that are generally deductible:

1. **Medical Expenses** that exceed 7.5% of your Adjusted Gross Income
2. **State and Local Taxes**, as well as **Property Taxes** and **Sales Tax** (all capped at $10,000)
3. **Mortgage Interest** on up to $750,000 debt (post 12/16/17); $1,000,000 (before 12/16/17)
4. **Casualty Losses** due to a federally declared disaster
5. **Charitable Donations** to qualified, tax-exempt organizations

[1] The Tax Cuts and Jobs Act is set to expire December 31, 2025, unless Congress acts sooner.
[2] An Additional Standard Deduction, ranging from $1,500 to $3,700, is available for ages 65 and older.

Of these five categories of deductible expenses, there is some timing flexibility in three categories—Medical Expenses, Sales Tax, and Charitable Donations. The timing for some medical expenses can be planned, such as those for elective or non-urgent procedures and supplies. Sales tax can be affected by a major purchase, such as a vehicle, and that purchase can be timed. And charitable donations are generally the easiest to time.

Timing of charitable donations can be facilitated through the use of a Donor Advised Fund (DAF). A DAF is a personal giving account established through a charity. Once your account is established, you can make donations to your account and receive tax benefits in the year of the gift. You can then request distributions from your DAF to qualifying charities at the time you decide.

The following is an example of bunching itemized deductions using a Donor Advised Fund. In the first year, the taxpayer contributes to charity the way he normally would. In addition, he donates a generous amount to his DAF—an amount which might represent another full year or more of "prepaid" donations. Because of the high level of giving, his total contributions exceed the Standard Deduction, so he decides to itemize deductions in that year.

In the second year, most of the charitable donations are given from the DAF rather than flowing out of pocket. As a result, the deduction available for charitable contributions is much lower, as the DAF funds have already realized a tax deduction in the previous year. Itemized deductions are low. Therefore, taking the Standard Deduction in the second tax year is the better option.

Going forward, the taxpayer continues the same process. He bunches charitable donations in some years, itemizing those deductions and benefiting from a greater tax write-off. In other years, he makes most of his donations from his DAF and takes the Standard Deduction.

Motivation for Giving

Most donors give not primarily for the tax deduction but for the joy of giving to something that is important to them. Consider this: after the Standard Deduction was increased, only 10% of taxpayers itemized deductions. But before that, the percentage was not much different. With the Standard Deduction at roughly half its current level, still only 30% itemized. That means that the majority of Americans who give to nonprofits do so irrespective of the tax benefits.

As faithful stewards, we should plan wisely. We are instructed to “Render to Caesar the things that are Caesar’s, and to God the things that are God’s” (Mk 12:17 NKJV). If we can ethically reduce the tax bill, that’s great. If not, then let’s continue to invest generously in God’s work for loftier and nobler reasons than mere tax savings.