

LEGAL UPDATE

Schneider Smeltz Spieth Bell LLP

DONOR-ADVISED FUNDS GAIN POPULARITY

In light of the 2017 Tax Act, the use of Donor-Advised Funds, or DAFs, has exploded because they can serve as a “checking account” for your charitable giving. A Catholic Community Foundation (CCF) DAF provides a simple, tax-effective way to make a charitable gift of cash, stock, or real estate for a tax deduction equal to the market value of the gift because a DAF is a giving program within the CCF, a public charity. In other words, you are permitted to make a gift to your DAF in one tax year, receive a tax deduction in that same year, and then recommend gifts from your DAF “checking account” to your charities in future years. DAFs have become popular because in 2018 and beyond because dramatically fewer people will itemize deductions after the standard deduction was doubled (\$12,000 for single and \$24,000 for married filing jointly) and most former deductions were eliminated or severely limited. The most significant is the deduction for state and local taxes (so-called SALT deduction), which is limited to just \$10,000.

For example, say Joe and Sally Generous generally donate \$5,000 each year to their local parish, \$2,500 to CCF, and \$2,500 to their other charities. They have a combined income of \$150,000, pay Ohio income taxes of \$5,266, and pay real estate taxes of \$6,000. They have sufficient assets to make greater contributions, and are considering “bunching” their annual \$10,000 gifts for the next 5 years into one \$50,000 gift in 2018 into a DAF. As the table below shows, they will optimize their federal income tax situation by using a DAF.



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	ANNUAL GIFTING	BUNCHING 5 YEARS PLAN OF GIFTS INTO YEAR 1
Yearly Adjusted Gross Income	\$150,000	\$150,000
Property Tax Deduction	\$6,000	\$6,000
Income Tax Deduction	\$5,300	\$5,300
Charitable Deduction	\$10,000/year	\$50,000
Total Deductions	\$21,300, so \$24,000 via standard deduction	\$61,300 in year 1, itemized, \$24,000 in years 2-5
Taxable Income	\$126,000 each year	\$88,700 in year 1, \$126,000 in years 2-5
Tax Due	\$19,600 each year	\$11,400 in year 1, \$19,600 in years 2-5
Total Tax Due	\$98,000	\$89,800

**Tax savings of \$8,200 using the 'bunching' plan
and a Donor- Advised Fund**