PURPOSEFUL
financial & legacy planning

A savvy way you can give more to charity, pay less in taxes

Under the Tax Cuts and Jobs Act of 2017 (TCJA), the standard deduction available to taxpayers increased substantially. However, for taxpayers who choose to itemize their deductions, TCJA limited or discontinued certain previously deductible expenses, such as state and local income, sales, and property taxes, and charitable deductions. One work-around is to accelerate your charitable giving using a donor-advised fund.

Potential advantages of using a donor-advised fund

This hypothetical example assumes that the persons involved are single; that they take the standard deduction for federal income taxes, except in the first year for the person who donates $50,000 to a donor-advised fund; and that the money in the donor-advised fund grows at a projected rate of 6% a year.[1] Each person then makes a $10,000 charitable donation a year for the first four years. However, the person who initially contributed to the donor-advised fund makes a $16,753 charitable donation in the fifth year as a result of the fund's capital appreciation. (Any taxes saved on capital gains realized by donating appreciated securities or property are in addition to any tax savings shown below. Also, this hypothetical assumes 2021's standard deduction, tax rate, and tax brackets remain the same over the whole period.)

	INCOME: $500K Gives $10K every year in charitable donations		INCOME: $500K Contributes $50K to a donor-advised fund in year one	
	DONATED	TAXES PAID	DONATED	TAXES PAID
YEAR 1	$10K	$145,151	$10K	$132,044
YEARS 2–4	$10K*	$145,151*	$10K*	$145,151*
YEAR 5	$10K	$145,151	$16,753	$145,151
	$50K	$725,755	$56,753	$712,648
			Donated $6,753 more	**Paid $13,107 less in taxes**

* Each year.

[1] The assumed 6% rate of return is not guaranteed. It is an illustrative example of a long-term average return on a balanced investment of stocks and bonds. Market returns are not constant and will fluctuate annually. Lower tax rates on dividends and capital gains may make the taxable investment more favorable and the difference between taxable and tax-deferred ending balances less. Any future changes in the tax treatment of investment earnings or a rate of return that is lower than the assumed rate of return may further affect the comparison. Consider your time horizon and current and expected future tax rates before making an investment decision. You should consult a tax or financial advisor about your individual situation.

Legal notices

All investing is subject to risk, including possible loss of principal. Be aware that fluctuations in the financial markets and other factors may cause declines in the value of your account. There is no guarantee that any particular asset allocation or mix of funds will meet your investment objectives or provide you with a given level of income.

We recommend that you consult a tax or financial advisor about your individual situation.