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After-Tax Advisor | Attracting Clients

Best of the Bunch

By: Holly Swan | August 2, 2022

While the Build Back Better Act remains stalled, the existing rules most taxpayers must live with create challenges for charitably inclined taxpayers and opportunities for an After-Tax Advisor.

Before the Tax Cuts and Jobs Act (TCJA) of 2017, charitable giving was simple: Taxpayers included charitable donations in their itemized deductions from income so that the pretax amount was no longer subject to ordinary income tax. The "cost" of charitable giving was partly borne by Uncle Sam—a $12,000 charitable donation, for example, "felt" like roughly $7,600 from the donor's pocket and roughly $4,400 from Uncle Sam (these amounts assume the top marginal income tax rate of 37% and will vary depending on income level, tax rates and other factors).

After the TCJA, the same $12,000 donation is too small to bridge the gap between the $10,000 state and local tax (SALT) cap and the $25,900 standard deduction for married couples filing jointly in tax year 2022. Absent other deductions, such as the mortgage interest deduction, the full "cost" of this charitable donation is borne by the taxpayer.

If you ask your prospective clients how they currently plan their charitable giving, you may uncover an opportunity their current advisors have missed—"bunching," and it works like this:

1. A client who used to donate $12,000 per year before the TCJA makes a one-time contribution of $60,000 to a donor-advised fund (DAF).
2. The large amount is well above the standard deduction and brings the client into itemized deduction territory—the "cost" of the charitable contribution is partly borne by Uncle Sam.
3. The client can distribute smaller amounts of $12,000 per year over the next five years in support of his/her preferred 501(c)(3) organizations and then take the standard deduction in those years.

If prospective clients balk at the size of the five-year amount, you can remind them that there are many ways to fund this contribution besides cash. However prospective clients decide to fund their charitable intents, a conversation about bunching can be an excellent way to attract new clients.

Bottom line: Discussing "bunching" with charitably inclined prospects provides an After-Tax Advisor with the opportunity to help clients recover a tax deduction and continue to support their preferred charities with donations throughout the year.

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