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Maximizing Tax Savings: The Benefits of Bunching Your Itemized Deductions

With the standard deduction having increased in recent years, fewer people have been able claim the itemized deduction. The strategy of "bunching" itemized deductions has emerged as a valuable tactic. Bunching involves aggregating deductible expenses into alternating years to surpass the standard deduction threshold, thereby maximizing tax savings.



What Are Itemized Deductions?

Itemized deductions are expenses that taxpayers can claim on their tax returns to reduce their taxable income. Common itemized deductions include:

- Mortgage Interest
- Long-Term Care Premiums
- Property Taxes,
- Medical Expenses
- Charitable Contributions

Unlike the standard deduction, itemized deductions must be detailed and total more than the standard deduction amount for it to be beneficial.

How To Bunch Itemized Deductions

Prepaying itemized deductions involves paying expenses in advance that would normally be deductible in a future tax year. For instance, prepaying your property taxes or making charitable contributions before December 31st can allow you to claim these deductions in the current tax year. This can be particularly advantageous if you anticipate being in a higher tax bracket this year compared to next year.

Why Prepay Itemized Deductions?

1. Overcome the Standard Deduction Threshold: The standard deduction amount is substantial, often leading many taxpayers to opt for it instead of itemizing deductions. Bunching allows individuals to concentrate deductible expenses into a single tax year. By doing so, they can exceed the standard deduction threshold in that year, thereby reducing taxable income and potentially lowering their tax liability.

2. Maximize Tax Benefits: Bunching allows taxpayers to exercise greater control over their taxable income from year to year. For those whose deductible expenses fluctuate from year to year, such as freelance workers or those with irregular incomes or if you experience large or irregular expenses,

bunching can be an effective way to manage and simplify your tax planning. By itemizing deductions in high-income years and taking the standard deduction in lower-income years, individuals can smooth out their tax liabilities and potentially reduce the overall tax burden over time.

3. Potential Savings on State Taxes: In states where itemized deductions mirror federal guidelines, bunching can also result in savings on state income taxes by amplifying deductions in high-expense years.

While bunching itemized deductions requires careful planning and consideration of timing, it can yield significant tax savings for many taxpayers. By strategically concentrating deductible expenses into alternating years, individuals can surpass the standard deduction threshold, reduce taxable income, and potentially lower their overall tax bill. Consulting with a tax advisor or financial planner can help determine the feasibility and benefits of bunching based on individual circumstances, ensuring that taxpayers maximize their deductions while remaining compliant with tax laws.

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