Charitable Giving

INCOME TAX CHARITABLE DEDUCTION

Presented for

Valued Client

Presented by

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INCOME TAX CHARITABLE DEDUCTION

The Attraction…

- Donors who make lifetime charitable gifts have the pleasure of seeing how their generosity benefits a favorite charity.
- The donor also receives a charitable income tax deduction for the gift, reducing the amount of income subject to tax. The amount of the deduction depends on the donor’s adjusted gross income (AGI).
- To take advantage of these deductions, a donor must itemize. Essentially, the government promotes charitable giving by allowing donors to pay less in taxes.

The Question…

- Not every charitably motivated gift qualifies for a charitable deduction, nor is every gift to a tax-exempt organization deductible.
- Charities must be “qualified” for federal income tax purposes to receive tax-deductible contributions. Qualified charities include churches, hospitals, universities, veterans’ organizations and non-profit cemeteries.

Factors…

- Generally, the deductible amount of a gift to a qualified charity depends on two factors: the type of organization receiving the gift, and the type and value of the property given.
- Tax law distinguishes between two types of qualified charitable organizations: “50% organizations,” generally made up of public charities, private operating foundations and certain other private foundations, and “30% organizations” (essentially all the rest, including most types of private foundations).

Cash Gifts…

- Cash gifts to 50% organizations—the public charities—can be deducted up to 50% of the donor’s AGI. This category includes organizations receiving much of their support from the government or general public, such as governmental units, religious and educational organizations, hospitals and medical research organizations, community foundations and other organizations meeting the public support test.
- Cash contributions to 30% organizations such as private foundations can be deducted only up to 30% of the donor’s AGI.

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Gifts of Other Property…

- With a gift of property other than cash, the fair market value of the property generally determines the amount of the contribution.
- However, certain property gifts are deductible only to the extent of the donor’s cost basis, including ordinary income property, appreciated short-term capital gain property, and certain types of appreciated long-term capital gain property given to a 30% organization. Tangible personal property that’s put to a use “not related” to the charity’s tax-exempt purpose is also included.
- A gift of an appreciated asset that would have produced long-term capital gain if sold on the date of the contribution is generally only deductible up to 30% of the donor’s AGI if it’s given to a 50% organization. A similar gift to a 30% organization is only deductible up to 20% of the donor’s adjusted gross income.
- Donors contributing property other than cash and publicly traded securities and claiming a value exceeding $5,000 generally must obtain a written appraisal from a qualified appraiser. The appraisal must be done no earlier than 60 days before the date of the gift and no later than the due date of the donor’s tax return on which the deduction will be claimed. The donor must attach a special IRS form to the income tax return, signed by the charity and the appraiser.
- Special valuation rules exist for certain donated property such as intellectual property, life insurance, artwork and motor vehicles.
- Any excess deduction above the AGI percentage limitation may be carried over and deducted in up to five succeeding tax years.

The Bottom Line…

Lifetime charitable gifts allow donors to witness the impact of their generosity. Lifetime gifts also provide attractive income tax advantages, which often afford donors the opportunity to make even greater contributions to charitable causes.

SUMMARY

Why Lifetime Charitable Giving?

Donors who make lifetime charitable gifts have the chance to see firsthand how their generosity contributes to a favorite charity's mission.

For donors who itemize deductions, a gift to charity qualifies for an income tax charitable deduction in the year it's made, subject to certain limitations. Less income subject to tax can mean a smaller tax bill.

What Types of Organizations Qualify?

Itemizers can claim a deduction for gifts made to a "qualified charitable organization." That definition includes charities such as educational institutions, churches and hospitals, along with other organizations receiving support from government and private sources.

Tax law distinguishes between two types of qualified charitable organizations. One type is identified as "50% organizations," generally made up of public charities, private operating foundations and certain other private foundations that receive a good portion of their funds from the government or the general public. The other type, "30% organizations," includes most types of private foundations.

How Is the Deduction Determined?

Generally, the amount a donor may take as an income tax charitable deduction depends on two factors: the type of organization receiving the gift, and the type and value of the gift.

Gifts of cash to 50% organizations can be deducted up to 50% of the donor's adjusted gross income, while cash gifts to 30% organizations can be deducted up to 30% of the donor's adjusted gross income.

Gifts of property other than cash may get a somewhat different treatment. Generally, the fair market value of the donated property is deductible. But in some cases, the deduction is limited to the donor's cost basis. This exception applies to such gifts as ordinary income property, appreciated short-term capital gain property, and certain appreciated long-term capital gain property given to a 30% organization. Tangible personal property is also included in this exception if it's put to a use unrelated to the charity's tax-exempt purpose.

Special valuation rules also exist for certain donated property, such as intellectual property, life insurance, artwork and motor vehicles.

When Is a Qualified Appraisal Necessary?

Another requirement applies to gifts other than cash and publicly traded securities where the donor claims a value of more than $5,000.

Unless an exception applies, donors must obtain a written appraisal from a qualified appraiser to support the claimed valuation, and attach a special IRS form to their federal income tax return, signed by the charity and the appraiser. The appraiser must make the appraisal no earlier than 60 days before the date of the gift and no later than the due date of the donor’s tax return claiming the deduction.

What Is the End Result?

When a donor makes a charitable gift during life, it allows the donor to see the real-world impact of the gift in action. Charitable giving can also provide tax advantages in the year the gift is made, which can often make an even larger gift possible.


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