# A Primer for Charitable Deductions

When contemplating making a significant gift, the charitably inclined are well advised to exercise some foresight. Similar gifts made in different ways will yield remarkably different results. The treatment of your gift for federal tax purposes will vary depending on the type of asset donated, the type of charitable organization receiving the gift, and your individual circumstances and overall tax status.

**Asset Classification**

Gifts to charity funded with different types of assets are subject to different restrictions on deductibility. The Internal Revenue Code (IRC) generally classifies different types of property according to a four-tier system: 1) ordinary income property, 2) short-term capital gain property, 3) long-term capital gain property, and 4) tax-free property. Property is also classified as either *intangible* property or *tangible* personal property.

**Types of Charities**

There are also deductibility limitations imposed on donations depending on the structure of the recipient charities, which fall into two general categories:

**o Public Charities.** So-called public charities include organizations such as the Red Cross, most religious organizations, schools, and hospitals. This category also includes operating private foundations that actually *directly* engage in charitable activities (as opposed to simply making grants) and "pass-through" foundations that distribute their gifts and income promptly.

**o Private Foundations.** These are non-governmental, not-for-profit organizations that typically operate as trusts or corporations with funds often provided by a single source, such as an individual or family. Managed by trustees or boards of directors, private foundations cover a wide variety of interests and are well known for contributing to community service. This category is far more restricted because of concerns relating to the potential for abuse by donors or foundation officials.

**Valuation and Eligibility**

Donors must categorize donations in accordance with the above classifications in order to determine the valuation of their gift for the purpose of claiming a charitable deduction. Consider the following:

**o** Gifts of cash (including by check) are simply equal to the amount of the gift.

**o** Gifts of tangible personal property that can be directly used to advance the recipient charity's tax-exempt purpose or gifts of long-term appreciated intangible property allow the donor to claim a tax deduction based upon the fair market value (FMV) of the donated asset.

**o** Gifts of tangible personal property not for exempt use ("physical" property subject to personal property taxes), short-term appreciated intangible property, and ordinary income property allow the donor to claim a tax deduction based on the original cost (less depreciation) or fair market value of the donated asset, whichever is less.

Any single contribution exceeding $5,000 (*except* one funded with cash or publicly-traded stock) requires a qualified appraisal within 60 days of the date of gift. The donor must submit the appraisal when filing his or her taxes. All gifts of $250 or more require written acknowledgment from the recipient charity in order to claim a deduction, though it is undoubtedly prudent to obtain a receipt for gifts of any size.

**Income Limitations**

The final factor affecting your ability to claim a charitable deduction pertains to limitations associated with the size of your adjusted gross income (AGI). Your deduction for gifts of cash to a public charity may not exceed 50% of AGI in any one year, while your deduction for cash gifts to a private foundation may not exceed 30% of AGI.

For gifts of both long- and short-term appreciated property, your deduction is limited to 30% of AGI for gifts to public charities and 20% of AGI for gifts to private foundations. The limitations on both cash and appreciated property work in tandem, capping total charitable deductions for any single year at 50% of AGI. Deductible amounts above these limits may be carried forward for up to five additional, consecutive tax years. Higher income donors must also be wary of restrictions on total itemized deductions, which are gradually phased out above certain levels of AGI.

**Seek Counsel**

There is only one conclusion that can be drawn with certainty: If you intend to make a charitable gift that *you* consider to be significant, the assistance and counsel of a qualified tax professional is vital to successfully navigating the murky waters of charitable tax law.