Understanding the Charitable Contribution Deduction

Presented by LifeTime Asset Management, LLC

The charitable contribution deduction allows taxpayers to deduct donations of cash and property to qualified charitable organizations on their income tax returns. Taxpayers must itemize their deductions in order to do so.

Which Organizations Qualify?

Qualified organizations include any that fall under sections 170(c) and 501(c)3 of the tax code and are considered either public charities or private nonoperating foundations. The type of organization you donate to will determine the maximum amount you can deduct from your taxes.

Public charities. Public charities use donations from the general public to directly support their initiatives. If you donate cash to a public charity, you can deduct a maximum of 60 percent of your adjusted gross income (AGI) in a given tax year. If you donate long-term appreciated assets, you can deduct 30 percent of your AGI (or 50% of AGI if you elect to use the basis of the property instead of its fair market value). For cases where you give both cash and long-term appreciated assets, you can deduct up to 30 percent of your AGI for the gifts of long-term appreciated assets, and up to 60 percent for total gifts.

Private nonoperating foundations. Generally, private nonoperating foundations are created by individual benefactors, such as a person or a business. These organizations only donate to other charities. If you make a donation to a private nonoperating foundation, the AGI limits are 30 percent for cash gifts and 20 percent for gifts of long-term appreciated assets.

Claiming a Deduction

The rules for claiming a deduction can vary based on the type and value of property you donate. For any donation of $250 or more, you must obtain a written acknowledgement from the charity indicating the amount of cash and a description of any property contributed. That written acknowledgement must indicate whether the charity gave you any goods or services in exchange for the gift, and if so, what was given and how much it was worth. Charitable gifts must be made by December 31.

In order to claim a deduction properly, it's important to know the process for each type of donation you might make.

Cash donations. For contributions of cash, check, or other monetary gift of any amount, you must maintain a bank record or a written communication from the organization with the name of the organization, the amount, and the date of the contribution. If you make the donation via check, you are eligible to take the deduction as long as the check is postmarked by December 31 of that year, even if the organization receives it after that date.

Non-cash donations. You must be able to prove the fair market value of the goods or property you are donating. If the property is worth more than $500, you will need to include IRS Form 8283 with your tax return. In some cases, a qualified appraisal may be required. For donations of long-term appreciated assets, your deduction is generally equal to the fair market value of the asset on the day the charity takes ownership. For donations of short-term appreciated assets, your deduction is limited to the cost basis.

Tangible property donations. Donations of tangible personal property, such as books, furniture, jewelry, or art, are subject to the related use rule, which dictates that if the property donated isn't related to the charitable purpose of the organization, your deduction will be limited to your cost basis. For example, if you donate art to a museum that typically displays that type of art, your donation is related to the museum's charitable purpose. If you donate a diamond necklace to a college that then sells it and uses the proceeds, your donation is not related to their purpose. If you donate art that is either your own art or art you received as a gift from an artist, you may be allowed to deduct only the cost of the materials used to create the art.

Nondeductible items. Donations you cannot deduct from your AGI include any gifts made to political parties or campaigns, as well as gifts to individual people. You also cannot deduct any contributions to labor unions, chambers of commerce, business associations or corporations; for-profit schools, educational institutions, and hospitals; and foreign governments.

If you donate long-term appreciated assets like bonds, stocks, or real estate to charity, you typically don't have to pay capital gains taxes on those assets.

If you can't fully deduct your donations in a given tax year because of AGI limits, the excess may be carried forward for a maximum of five years or until it is used up—whichever comes first. Your total charitable deductions in those years still can't exceed the AGI limits. Excess contributions of qualified conservation property can be carried forward for up to 15 years.

Contact an Expert
The rules surrounding the charitable contribution deduction are complex, so it is important to coordinate with your tax advisor to ensure that your donations are properly documented and reported.

Commonwealth Financial Network® does not offer tax or legal advice. Please consult a tax or legal professional regarding your individual situation.

LifeTime Asset Management, LLC
801 Corporate Center Drive | Suite 110 | Raleigh, NC 27607
919.845.5315 | 919.845.5346 fax | www.lifetimeasset.com

AMKTG-835049_01/24