



## CHARITABLE GIVING

Charitable Income Tax Deduction

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### CHARITABLE INCOME TAX DEDUCTION

## 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. Those identified as "50% organizations" are 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. Those referred to as "30% organizations" include 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 now be deducted up to 60% 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.



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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.

Donors must generally 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.

