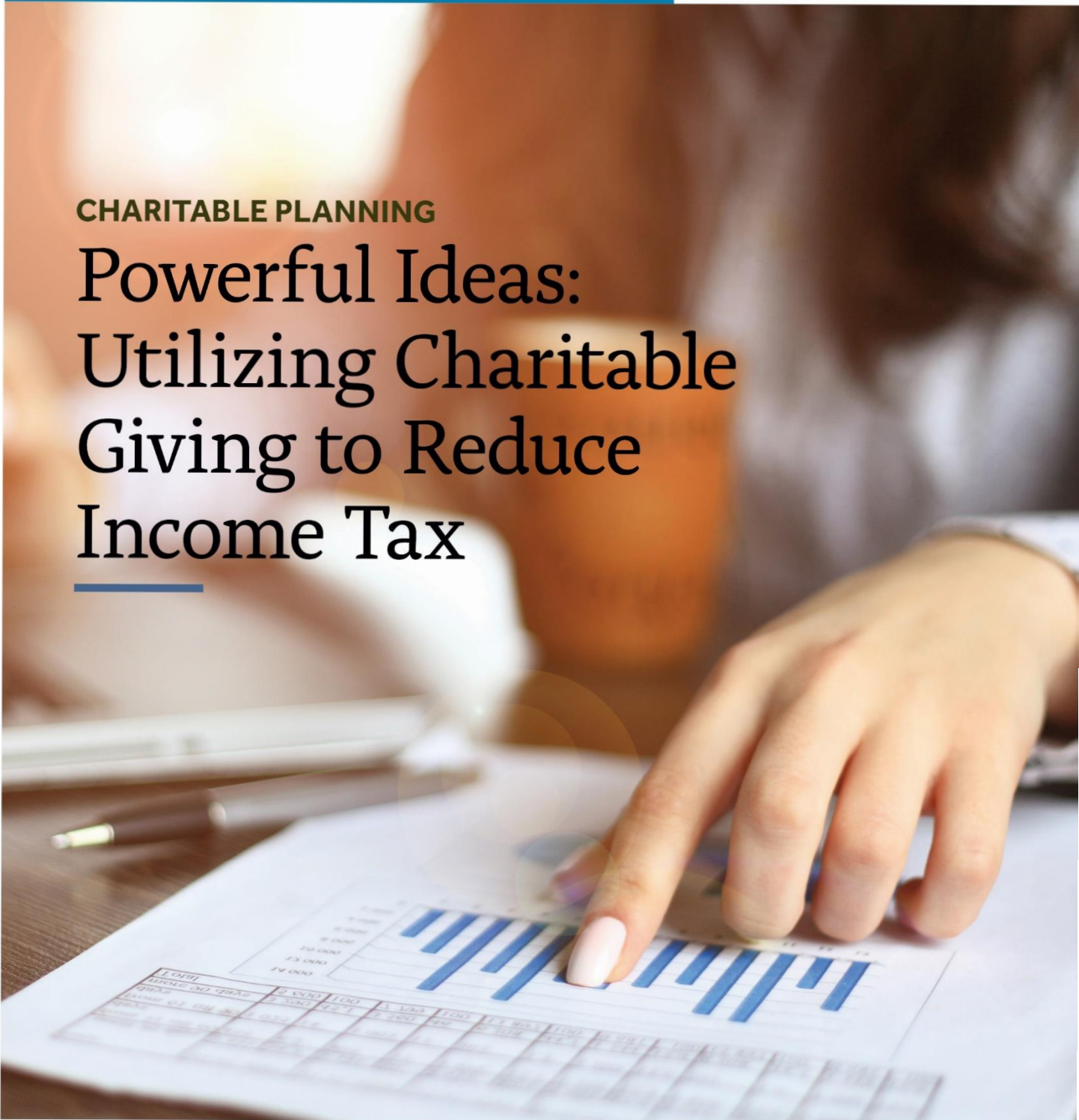


CHARITABLE PLANNING

Powerful Ideas: Utilizing Charitable Giving to Reduce Income Tax



Utilizing Charitable Giving to Reduce Income Tax

Charitable Deductions – In General

Section 170(c) of the Internal Revenue Code (IRC) allows a deduction for contributions of cash, property, and services made to charitable organizations. In order to receive the deduction, the donor must have a desire to assist the charitable organization. If the IRS can prove a donor's motivation is not charitable, charitable giving is difficult to justify and the deduction may not be allowed. If the deduction is allowed, charitable gifts can reduce federal income, gift, and/or estate tax.

How Is the Amount of a Charitable Deduction Determined?

In order to determine the amount of a deduction, the following factors are considered:

- Who is the donor?
- What type of charity is receiving the donation?
- What type of property is being donated?

Who Is the Donor?

Anyone may make a charitable contribution, however, the amount of the available tax deduction for the contribution in any given year depends on who or what the donor is. Individuals who make charitable contributions may take an income tax deduction of up to 60% of adjusted gross income (AGI), depending on what type of property is donated and to what type of charity (i.e. private vs. public) the property is donated to. However, an estate may receive an unlimited deduction for testamentary charitable gifts, regardless of whether the recipient is a public charity or private foundation.

C corporations generally may deduct charitable contributions up to an amount equal to 10% of taxable income and carry forward excess contributions for five years, whereas owners of pass-through entities, such as partnerships or S corporations, report the contributions made by the business on their individual income returns and are subject to the individual rules herein.

What Type of Charity Is Receiving the Donation?

The Internal Revenue Code classifies nonprofit organizations into various tax categories, including private foundations and public charities. An organization must meet certain requirements set forth in the Internal Revenue Code to qualify as a nonprofit organization. Some organizations must also file a request with the Internal Revenue Service to gain status as a tax-exempt non-profit charitable organization under IRC §501(c)(3) of the tax code. There are two general categories that nonprofit organizations fall into, public charities and private foundations.

A public charity is a charitable organization that (a) has broad public support, (b) actively functions to support another public charity, or (c) is devoted exclusively to testing for public safety. Many public charities rely on contributions from the general public. Public charities generally fall into one of the following categories:

- A church or convention of churches,
- Educational institutions,
- Certain hospitals and medical research organizations, or
- Federal, state, or local governments or a unit of such governments.

Private foundations are charitable organizations that are not public charities. These are usually nonprofits established with funds from a single or specific source, such as family or corporate money, endowments or bequests.

However, contributions to civic leagues, social and sports clubs, labor unions, chambers of commerce, foreign organizations (with exceptions), groups that are run for personal profit, groups whose purpose is to lobby for law changes, homeowners' associations, individual political groups and candidates for public office do not receive a deduction.

What Type of Property Is Being Donated?

The amount of the deduction depends on what type of property is being donated and whether the charitable organization is a Public Charity or Private Foundation.

Individuals are subject to the following limitations when contributing to charitable organizations:

Type of Property Contributed	Public Charity		Private Foundation	
	Deduction Value	Percentage Value*	Deduction Value	Percentage Value*
Cash or Check	Face Value	60%	Face Value	30%
Ordinary-Income Property	Cost Basis	50%	Cost Basis	30%
Short-Term Capital Gain Property	Cost Basis	50%	Cost Basis	30%
Long-Term Capital Gain Property***				
General Rule	FMV	30%	Cost Basis	20%
Donor Elects Reduced Deduction	Cost Basis	50%	N/A	
Qualified Appreciated Stock****	N/A		FMV	20%
Tangible Personal Property - Unrelated Use	Cost Basis	50%	Cost Basis	20%

* Extent to which contribution may be deductible based on donor's Adjusted Gross Income (AGI) (unused deductions may generally be carried forward for additional 5 years).

** The limitation on the deduction amount for charitable cash contributions has been suspended for 2020 and 2021. The limitation has been increased to 100% of AGI for these two years only.

*** Includes appreciated real estate.

**** Generally consists of publicly traded stock.

NOTE: Donor advised funds (DAF) and private operating foundations generally considered public charities for purposes of these rules.

Contributions in excess of the above AGI limits may generally be carried forward to future tax returns for up to five years. Upon death, the five-year carry forward dies with you, but it can be claimed on the decedent's last return.

This tax-related discussion reflects an understanding of generally applicable rules and was prepared to assist in the promotion or marketing of the transactions or matters addressed. It is not intended (and cannot be used by any taxpayer) for the purpose of avoiding any IRS penalties that may be imposed upon the taxpayer. Unless otherwise noted in the material, tax specific information, such as rates, credits, exclusions, exemptions, and deductions are specific to 2020. New York Life Insurance Company, its agents and employees may not give legal, tax or accounting advice. Individuals should consult their own professional advisors before implementing any planning strategies. The Nautilus Group® is a service of New York Life Insurance Company. SMRU 1766312 Exp. 7/9/2023