Types of Property to Donate to Charity

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Why does it matter what type of property is donated to charity?

You can donate many different types of property to charity. The amount of your charitable deduction for income tax purposes depends partly on the type of property you donate. The general rule is that your charitable deduction is limited to either 30 percent or 50 percent of your contribution base (your contribution base is generally equal to your adjusted gross income), depending on the type of property you donate and the classification of the charity as a public charity or a private foundation (although lower limitations may apply to contributions of capital gain property). (For 2018 to 2025, the 50 percent limit is increased to 60 percent for certain cash gifts.) Any amount that cannot be deducted in the current year can be carried over and deducted for up to five succeeding years (the carryover rule), assuming you continue to itemize deductions.

Note: The normal charitable gifts deduction rules are enhanced in 2020 and 2021. For those who itemize deductions, the limit on the charitable gifts deduction has been increased to 100% of AGI for direct cash gifts to public charities. For nonitemizers, a $300 (increased to $600 in 2021 for joint returns) charitable deduction for direct cash gifts to public charities is available (in addition to the standard deduction).

What are the different types of property that can be donated to charity?

There are six general categories of property you can donate to charity:

- Cash
- Long-term capital gain property
- Ordinary income property
- Tangible personal property, where the charity's use of that property is related to the functions of the charity
- Tangible personal property, where the charity's use of that property is unrelated to the functions of the charity
- Future interests in property

Cash

This is the easiest item to donate to charity. If your charity is a public one, your deduction is limited to 50 percent of your contribution base. For 2018 to 2025, the 50 percent limit is increased to 60 percent for certain cash gifts. The value of your gift is simply the amount of cash donated. The carryover rule applies so that any amount that cannot be deducted in the current year can be carried over and deducted for up to five succeeding years.

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Long-term capital gain property

Long-term capital gain property is property that would have produced a long-term capital gain if it had been sold rather than donated to charity. Remember, a gift to charity is not the same as a sale to charity. Capital gain is considered "long term capital gain" when property to which it applies has been held longer than 12 months.

There are two types of long-term capital gain property:

- Intangible personal property and real property, such as stock or land
- Tangible personal property, such as a car, sculpture or jewelry

When you donate intangible long-term capital gain property to a public charity, your deduction is limited to 30 percent of your contribution base. The carryover rule applies. The full fair market value (FMV) of the asset is used to determine your charitable deduction.

Example(s): Suppose you donate stock with a current FMV of $50,000 to a public charity. Ten years ago, the stock cost $15,000. The result is that the full FMV of the stock is deductible, limited by the percentage rules. If your contribution base is $100,000, your deduction for the present year is $30,000 (30 percent of $100,000). You can then carry over and deduct the $20,000 balance of your available deduction in the following year.

Technical Note: There is an election you can make in certain situations that will increase your deduction limit from 30 percent to 50 percent of your contribution base. The catch is that you must then reduce the value of the gift by the potential gain. This election is useful if your income fluctuates widely from year to year and if the appreciation of the donated asset is small.

Example(s): Suppose you donate long-term capital gain property to charity with an original cost of $9,500 and an FMV of $10,000 at the time of the gift. Assume your contribution base is $22,000.

Example(s): If you don't choose the election, the 30 percent limitation applies and your maximum allowed deduction for the year is $6,600 (30 percent of $22,000). You must carry over the remaining $3,400 ($10,000 minus $6,600) to the following year.

Example(s): If you choose the election, the value of your gift ($10,000) must be reduced by the potential gain ($500). Your gift is valued at $9,500. However, you are then able to use the 50 percent limitation. Your maximum allowed deduction is $11,000 (50 percent of $22,000), and you can deduct the entire $9,500 in the given year.

Ordinary income property

Ordinary income property is property that would have generated ordinary income (rather than capital gain) if the asset had been sold rather than donated to charity. Ordinary income property includes:

- Property held less than the requisite long-term period
- Section 306 stock (stock acquired in a nontaxable corporate transaction) any gain recognized upon the sale of Section 306 is treated as ordinary income
- Works of art, books, letters, and musical compositions, but only if given by the person who created them or for whom they were prepared
- Inventory

If you donate ordinary income property to a public charity, your deduction is limited to 50 percent of your contribution base. However, the tax code does not allow you to deduct the full FMV of such a gift. Instead, your deduction is generally limited to your actual cost for the property, plus any adjustments such as improvements or depreciation. This figure is commonly referred to as your basis in the property.

Example(s): Suppose Julie donates one of her paintings that she created worth $50,000 to an art museum. The result is that her deduction would be limited to her cost for producing the painting (canvas, paint, brushes etc.). She would not be entitled to a deduction for the painting's FMV of $50,000.

Example(s): Similarly, suppose you donate stock worth $25,000 to a public charity. You purchased the stock four months ago for $12,000. Because the sale of the stock would have resulted in short-term capital gain had you sold it instead of donated it, you can deduct only your basis, in this case, $12,000.

Tip: Gifts of substantially appreciated ordinary income property should be avoided, if possible, because your deduction is based on your basis in the property, rather than the FMV of the property.

Technical Note: An exception to this rule is when a corporation donates ordinary income property (such as inventory) to a charity that serves the ill, the needy or infants, and when the use of the property is related to the charity's purpose. In such a case, the allowable deduction is equal to: (a) the cost of the asset, and (b) one-half of the potential gain in the property.

Example(s): Suppose a pharmaceutical corporation donates $11,000 worth of medicine (inventory) to the Red Cross. If the cost of the medicine was $5,000, the corporation can deduct $8,000 ($5,000 cost plus one-half the $6,000 potential gain).

Tangible personal property

Tangible personal property includes items such as cars, paintings, and jewelry. The IRS makes a distinction between gifts that will be used by the charity in a manner related to the charity's functions and gifts that will not be used in a manner related to the charity's functions.

Example(s): If you donate a painting to an art museum for display, the use of your gift is related to the museum's exempt functions. However, if you donate the same painting to the Red Cross, the painting is unrelated to the exempt functions of the Red Cross.

The rule is if the donated property is related to the charity's functions, then your deduction is the fair market value of the property, limited to 30 percent of your contribution base. However, if the donated property is unrelated to the charity's functions, your deduction is your basis (cost) in the property, limited to 30 percent of your contribution base. The carryover rule applies in both situations.

Example(s): Let's suppose you donate a collection of whaling harpoons to the Whaling Museum for display purposes. The collection has a basis of $2,000 but on the date of donation, it was worth $10,000. Assume your contribution base is $20,000. Because the harpoons will be used in a manner that is related to the museum's functions, your deduction is based on the FMV of the property ($10,000) and capped at $6,000 (30 percent of $20,000) for the present year. The $4,000 balance can then be carried over and deducted in the following year.

Example(s): However, if you had donated the harpoons to the Red Cross, your deduction would be limited to your basis in the harpoons ($2,000) because the charity's use of the harpoons would be unrelated to its exempt functions. Because your maximum allowed deduction for the year is

$6,000 (30 percent of $20,000), you would be able to deduct the entire $2,000 in the present year.

Future interests in property

A future interest is one that will vest in possession or enjoyment at some time in the future.

Example(s): Suppose you donate an original painting to the local art museum, but stipulate that the painting is to remain in your home as long as you live. The result is that the museum has a future interest in the painting.

The general rule of charitable gifts is that the gift must actually be paid to the charity in cash or other property before the close of the tax year in order for the donor to be entitled to a charitable deduction for that property in that year. Therefore, a transfer to a charity of a future interest in property is not deductible until the charity has a free and clear right to possess and enjoy the property. The exception to this rule is when the gift of the future interest is in the form of a future interest in trust. Here, the future interest is tax-deductible when the gift is made even though the charity may not enjoy the gift for several years. The tax laws permit several types of trusts to be used for the purpose of making charitable gifts of future interests, including charitable remainder annuity trusts (CRATs), charitable remainder unitrusts (CRUTs), pooled income funds, and charitable lead trusts. If you comply with the requirements for formation of these trusts as set forth in the Internal Revenue Code and corresponding regulations, you can receive income, estate, and gift tax benefits.

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