Tax Basics of Charitable Gifts
(50/30/20 Rule)

If your charitable contribution for the year exceeds the limitations that are allowed as an income tax deduction in that year, you may carry over the excess for up to five (5) succeeding years. This is commonly referred to as the "5-year carry-over rule" for charitable income tax deductions.

For individuals who make charitable contributions, in addition to the social good that comes with the contribution, there may also be a financial benefit to the donor through an income tax charitable deduction for the charitable gift. There are, however, many rules that govern the ability to receive, and the amount of, a tax deduction. For example, the IRS requires that:

- The charity must receive some benefit from the donated property.
- The donor cannot expect to receive any economic benefit from the charity in return for the donation.
- Contributions of $250 or more in cash or property must be substantiated by a contemporaneous written acknowledgement of the contribution from the charitable organization.

There are many more requirements that may apply, depending upon the value of the contribution and the type of asset gifted.

Limits on Charitable Contribution Deductions

The income tax deduction that a donor may qualify for is also limited based on various factors, including:

- Whether the charity is considered a public charity or a private one;
- The type of property donated; and
- Whether the donation is "to" the charity or "for the use" of the charity.

The income tax deduction for eligible charitable contributions will generally be limited to 50%, 30% or 20% of the donor's adjusted gross income (AGI).

The 50% Deduction Limitation applies generally to gifts "to" public charities and some private charities — including schools, churches, hospitals and medical research facilities, federal and state governments, and publicly supported charities and their supporting organizations. These organizations are commonly referred to as "50%-type organizations." The 50% limitation also applies to gifts of short-term capital gain property. The gift must be a gift "to" the charity, meaning that it must be an outright gift, with "no strings attached."

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The 30% Deduction Limitation applies generally to:

- Gifts of most long-term capital gain property “to” the “50%-type organizations” and other types of contributions, such as cash gifts “for the use of” the “50%-type organizations.”
- Gifts “to” private foundations, veterans’ associations, fraternal groups, and private non-operating foundations, commonly referred to as family foundations. These organizations are commonly referred to as “30%-type organizations.” Gifts include cash gifts donated “to” or “for the use of” the private foundation, and ordinary income and short-term capital gain property.

The 20% Deduction Limitation applies generally to gifts of long-term capital gain property to most private charities, such as a private foundation.

The calculation of any available income tax deductions can be more complicated than stated herein, depending upon the type of property gifted, how the gift is made, and the type of organization to which the gift is made. The above limitations are merely a summary of the income tax deductions that may be obtained based upon the most common properties gifted, such as cash and marketable securities. Consult your tax and legal advisor for more information about your individual situation.

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Pub 6290 (12/13)
2013—13989