

# Understanding the AGI Deduction Limits



While charitable contributions are not limited, deductions on those contributions can be limited depending on several factors. One factor is the type of organization receiving the contribution—such as a qualified public charity or a private foundation. Another factor is the type of donation—cash or appreciated assets.

When donating cash to a public charity, taxpayers can deduct that donation up to 60% of their Adjusted Gross Income. Cash donations to a private foundation are deductible up to 30% of AGI. Any donations exceeding those limits provide a deduction “credit,” which can be carried forward for up to five years. Note that donations to a Donor Advised Fund qualify as donations to a public charity.

The limits are slightly different for donations of long-term appreciated assets, such as stock, real estate, or shares of a closely held business. Such donations are limited to 30% of AGI when made to a public charity and 20% when made to a private foundation. The same carryforward provision applies.

Example: A taxpayer with an Adjusted Gross Income of \$200,000 can write off up to \$120,000 of cash contributions (60% of AGI) to public charities. Any cash gifts over \$120,000 can be carried forward and used in any of the following five tax years. Alternatively, this same taxpayer can donate up to \$60,000 of long-term appreciated assets (30% of AGI), again, with any excess carried forward up to five years.

## IRS Limitations on Income Tax Deductions for Charitable Donations

	Public Charity (incl. DAFs)	Private Foundation
Cash Donation	60% of AGI	30% of AGI
Appreciated Asset Donation	30% of AGI	20% of AGI



Keep in mind that, when calculating the 60% limit on cash gifts, any appreciated asset gifts also count toward the 60% limit. Contributions in both categories are combined to calculate the maximum deductible amount in that year for both the appreciated asset gifts and the cash gifts, which cannot exceed 60% of AGI.

In order to utilize any carryforward credits from previous years, you would first need to identify all cash and appreciated asset gifts made for that tax year. If these amounts do not exceed the AGI limits for their respective categories, those prior year credits can be applied and used as additional deductions for that tax year. If the combined total of the current year deductions and carryforward credits exceed their respective limits, any surplus will continue to be carried forward until such credits expire.

It is important to keep in mind that, if you exceed your deduction limits every year, your carryforward credits may eventually expire unused. If this happens, you will lose the ability to take an income tax deduction for some of your charitable donations. Granted, for many, the tax deduction is not the highest motivator for giving. However, wise stewardship dictates that we manage our finances well for maximum efficiency. Therefore, in future newsletters, we will introduce several strategies for minimizing taxes for those who wish to give regularly in amounts at or above the AGI limits.