Planning for the 60% AGI Charitable Deduction Limitation

In a previous article, we examined the charitable deduction limitations imposed by the Internal Revenue Service on charitable donations. In this article, we will look at practical ways to plan your charitable giving with these rules in mind. First, let's review the rules.

An Overview of the IRS Rules:

- When donating **CASH** to a public charity, individuals can donate any amount they desire. However, they can deduct a maximum of **60% of their adjusted gross income** in that year.
- When donating **APPRECIATED ASSETS** such as stock, real estate, or business shares, donors can deduct only **30% of their adjusted gross income** when using the Fair Market Value as a basis for the deduction.
- When donating **APPRECIATED ASSETS**, donors can deduct up to **60% of their adjusted gross income** when using their **cost basis** as a basis for the deduction.
- Any excess deductions can be carried forward for up to **five additional years**.
- Donations to a **private foundation** are subject to reduced limits**—30% for CASH and 20% for APPRECIATED ASSETS** deducted at fair market value.

Here are ten planning options for addressing the 60% AGI Limitation when giving above the deduction limit:

1. **IRA conversion.** Convert a traditional qualified retirement plan (401k or IRA, for example) to a Roth account. This will increase your AGI and thus allow for a higher deduction limit. You will also enjoy income tax savings upon withdrawal from the retirement plan.

2. **IRA qualified charitable distribution (QCD).** If eligible, make direct charitable rollovers from your IRA to charity. You must be age 70½ or older. Though not deductible, QCD is not treated as ordinary income and is therefore not taxable.

3. **Time the sale of an asset.** One would not generally want to trigger a long-term capital gains tax. But if you see the need to sell off a highly appreciated asset, doing so will increase your AGI, allowing for a greater charitable deduction. This, in turn, can help offset the long-term capital gains tax.

4. **Donate an income-producing asset to charity**, thus channeling the revenue to charity without including it in your income stream. Examples include donating rental properties or royalties with underlying rights. These types of donations would allow you to transfer the income stream, and that income would no longer be taxable to you.

5. **Fund a non-qualified non-grantor reversionary charitable lead trust** with distributions flowing to charity for a term of years. The trust's income is neither taxable to the grantor nor creates a tax liability for itself or the donor; the trust can claim a tax deduction against its taxable income for amounts distributed to charity. In essence, you are "loaning" the income stream to charity for a period of time.

6. **Donate an interest in your business**, along with a proportionate share of the income. This would direct funds to charity but would keep them out of your AGI. This interest could be given outright, or "loaned" for a time using a charitable lead trust.

7. **Turn charitable gifts into business deductions.** Donate a business asset such as real estate, equipment, or patents, and lease the asset back from the charity. The resulting business expense is deductible without the same limitations as charitable donations.

8. **Donate, even if you receive no deduction.** For example, you could help a needy family in the community by providing for certain household needs or paying utility bills. You may wish to do so anonymously and not by means of a direct cash gift.

9. **Donate with a family member.** Make a gift to a trusted family member who can, in turn, make the charitable donation and receive the income tax deduction. Pay attention to the gift tax rules limiting annual nontaxable gifts to family members to $16,000 per person.

10. **Make a planned gift**, such as a gift in your will.

Dallas Seminary Foundation is here to assist with any of these planning options. Anticipate our next article, where we will share details on another way to address the 60% AGI limitation: **Utilizing a deduction stretch charitable gift annuity.**