

TAX-DEDUCTION RULES FOR DONATING PROPERTY ARE TRICKY

You may have donated substantial appreciated stock or tangible property in 1999 to your favorite charity, or you may plan to donate in 2000. Either way, you'll need to be careful when it comes to claiming the income-tax deduction, especially if you are in a high income-tax bracket. The rules can be pretty tricky.

Let's say you donated \$100,000 in appreciated stock in 1999 to a particular charity, or you plan to in 2000. The first thing you need to do is determine what type of charity it is (ask the charity). Charitable organizations are broken into two types: 50 percent organizations and 30 percent organizations.

Public charities that are considered 50 percent organizations include churches, religious organizations, hospitals, educational organizations, private operating foundations or other organizations that receive a substantial portion of their support from the public or the government. With these organizations, you cannot deduct more than 50 percent of your adjusted gross income (AGI) in the tax year you made the contribution (we'll get to carryovers later).

With 30 percent organizations, the maximum you can deduct for a tax year is 30 percent of your AGI. These organizations include veterans' groups, nonprofit cemeteries, certain private nonoperating foundations and fraternal societies.

In the event you give to both 50 percent and 30 percent organizations, the maximum total contributions you can claim cannot exceed 50 percent of your AGI.

Next, determine whether the \$100,000 in donated stock has short-term or long-term capital gains. Donations of property with short-term gains (held by the owner less than one year) are subject to the 50 and 30 percent AGI limitations mentioned above, though the deduction is limited to the cost basis of the property. The maximum deduction for appreciated long-term capital gain property is limited to 30 percent of AGI, not 50 percent, when donating it to a 50 percent organization. It's limited to 20 percent when gifting to a 30 percent organization. Donation of property you've inherited is automatically treated as long term, even if you've held the property less than a year.

You could claim up to 50 percent of your AGI for a 50 percent organization if you limit the deduction you claim to only the long-term property's cost basis. For property with minimum appreciation, this might be

the best strategy. However, real tax benefit of donating significantly appreciated property is that you can claim a deduction based on its fair market value and you don't have to pay capital gains taxes on the appreciation. (This assumes you donate the property to the charity and let the charity sell the property; do the opposite if you have a loss on the property.)

The above rules apply to donations of stock, real estate or other financial assets. Donations of tangible personal property can be trickier. Say you own a valuable painting. Donate it to an art museum and you can claim its fair market value—if you owned it at least one year or you inherited from someone who owned at least a year, and if the museum doesn't sell the work. Donate the painting to your church and you are limited to deducting only its cost basis. If you actually painted the picture, you can't claim more than its cost basis even if you donate it to the Metropolitan Museum of Art. Also be sure to get a qualified professional appraisal for any tangible property valued at over \$5,000.

What happens if you can't claim the entire value of your donated property in the current tax year because of the AGI limits? The law allows you to carry over unclaimed contributions for up to five years.

For those of you already scratching your heads over all this, it gets still more complicated if you make too much income. For 1999 tax returns, taxpayers filing jointly or single lose three cents worth of their deductions for each dollar of income that exceeds \$126,600 (\$63,300 for married filing separately). Say your AGI is \$252,000. You lose out on \$3,762 of your itemized deductions, including charitable deductions. These deductions are lost forever, by the way. You cannot carry them over.

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