

## **Tax Tips**

**Contributions to the Community Foundation generally qualify for an income tax deduction as a charitable contribution in the donor's current tax year. Certain limitations apply. The Foundation suggests that donor consult with qualified tax advisors to review the tax the specific tax consequences of donating to the Foundation. The guidelines addressed in this section are offered as an overview of general tax consequences. You as a donor should consult with your tax advisor to determine which tax situations best apply to your needs and circumstances.**

### **Limits on Deductions**

Deduction for securities or mutual fund shares held *for one year or less* are limited to the lower cost basis or fair market value on the date of contribution. Deductions for securities Held less than one year are limited to 30% of the adjusted gross income (AGI). For mutual fund shares held *more than one year*, the deduction is equal to the fair market value of the asset, calculated to the mean between the reported high and low price on the date of contribution, and limited to 50% of AGI. The deduction for mutual fund shares is calculated using *the closing price of the fund on the date of contribution*.

Individual donors are eligible for an itemized tax deduction for charitable cash contributions in an amount up to 50% of adjusted gross income (AGI) in the tax year when the contributions are made. A donor's ability to deduct itemized deductions may be further subject to additional limitations on the donor's specific tax situation.

### **Income Generated Through Donor Funds**

Income that accrues in a Donor Advised Fund (DAF) or another type of Foundation fund does not qualify for an additional charitable deduction for the donor(s) to those accounts. The initial gift to a Donor Advised Fund or any variation thereof held by the Foundation constitutes the only basis for charitable gift deductions for the donors.

### **Estate Planning Considerations**

Donor contributions to the Community Foundation and any subsequent increase in the value of a donor's fund before the donor's death are not part of the donor's taxable estate and are not subject to current estate taxes or probate. Balances in a Donor Advised Fund may not be appointed, willed, or bequeathed to any person or organization, although the original donor(s) may name successor nominees. Additional gifts may be made to a Donor Advised Fund by Will or by Beneficiary Designation (such as for life insurance policies or retirement accounts); such contributions generally will qualify for an estate tax charitable deduction.

### **Grants from a Donor Advised Fund Are NOT Deductible**

Donors receive a charitable deduction for making a contribution to the Community Foundation at that person's Fund inception. When the Foundation makes a grant from the Fund (usually based upon the Donor's recommendation), no additional tax deduction is allowed. The grant recipient may send the Donor a letter acknowledging the grant.

## Charitable Giving Vehicles/Tax Considerations and Compliance

The Community Foundation of Tompkins County is a 501(c)(3) public charity. As such, it is exempt from paying income tax and it is able to receive tax-deductible charitable gifts from donors.

A public charity, under the Internal Revenue Code (IRC) can be one of two types:

- a) Public Institutions and Publicly Supported Organizations (1/3 from gifts from public and governmental grants); and
- b) Publicly Supporter Service Providers (1/3 from gifts and fees for services and not more than 1/3 from investment income).

Tax Exempt Organizations are described in the Internal Revenue Code (IRC) as 501(c). Such organizations do not pay income tax unless they have unrelated business income.

There are several kinds of 501(c) designations.

- **501(c)(2)** are Real Estate Title Holding Corporations
- **501(c)(4)** are Social Welfare Organizations (civic leagues). 501(c)(3) and (c)(4) overlay but (c)(4) are not limited to the lobbying they may do.
- **501(c)(5)** are Labor, Agricultural, or Horticultural Organizations (such as labor unions)
- **501(c)(6)** are Chambers of Commerce and Business Leagues (such as the American Bar Association)
- **501(c)(7)** are Social Clubs and, other than their dues, all other income is unrelated business income.
- **501(c)(3)** are Religious, Educational, Charitable, and Scientific Organizations. These nonprofits are organized and operated exclusively for religious, charitable, scientific, testing for public safety, literacy or educational purposes, or for the prevention of cruelty to animals or children. No part of their net earnings can benefit any individual nor can a substantial part of their Activities be related to promoting propaganda or otherwise attempting to influence legislation. *Only 501(c)(3) organizations are eligible to receive tax-deductible charitable contributions.*

Lobbying or political activities are firmly limited under the 501(c)(3) codes. The Substantial Part Test examines a 501(c)(3)'s expenditures, time, and efforts on lobbying. The Expenditure Test (IRC 501(h) and 4911) establishes a "safe harbor," which means that any lobbying done by the organization cannot consume over 20% of the total expenditures or the organization will be charged an excise tax. Thus, 501(c)(3)'s do not participate in any political campaigns or electioneering, but they can support voter education.

Tax Exempt Status is obtained by filing the IRS Form 1023 for 501(c)(3) organizations and Form 1024 for all others. The IRS then sends a "letter of determination" that grants the organization its nonprofit, tax-exempt status. Churches are exempt without filing any forms.

We hope you find this information interesting and helpful as you determine the recipients of your charitable gifts.