Many nonprofit institutions are exempt from paying federal income tax, but only organizations set up under Internal Revenue Code section 501(c)(3) qualify their donors to deduct contributions on their income tax returns. Donations to other nonprofits are made after taxes.

Since 1917, individual taxpayers have been able to deduct charitable contributions from income that might otherwise be taxed. Today, individuals may deduct cash and certain other contributions up to 50 percent of adjusted gross income (AGI) in a given year and may carry forward any excess for deduction on future tax returns for up to five years. An important caveat: Only taxpayers who choose to itemize may take the charitable deduction; taxpayers who claim the standard deduction make contributions after taxes.

In 1935, Congress extended the right to deduct charitable contributions to corporations. Corporations may not deduct more than 10 percent of their pretax income in a given year, but, like individuals, may carry forward excess donations for five years. Some corporate contributions, however, might also qualify as business expenses.

Contributions by individuals or corporations can take the form of cash, financial assets, or other noncash property such as real estate, clothing, or artwork. Certain contributions face greater restrictions than cash contributions, whereas others receive more generous treatment than cash. The limit for donations of appreciated real property is generally 30 percent of AGI, and the limit for contributions to private operating foundations is the same. But donors may deduct the full current market value of appreciated property. This effectively allows the capital gains portion to be deducted twice: donors pay no tax on the capital gain, and then they reduce their other income subject to tax by the amount of the contributed but unrealized income.

According to the US Treasury, the deductibility of charitable contributions saved individual and corporate taxpayers $51.5 billion in 2014.
FURTHER READING


