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Utilizing Charitable Giving to Reduce Income Tax



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Under Internal Revenue Code (IRC) §170, individuals and entities may deduct charitable contributions of cash or property made to qualified organizations. The amount and timing of the deduction depend on the donor's tax profile, the type of charity, and the nature of the contributed property. When structured properly, charitable giving can reduce income, gift, and estate tax exposure while advancing philanthropic goals.

The One Big Beautiful Bill Act (OBBBA) permanently extended the increased standard deduction, which has significantly reduced the number of taxpayers who itemize deductions. As a result, charitable giving strategies should be evaluated in light of whether a taxpayer itemizes deductions or claims the standard deduction. Because the increased standard deduction is permanent under OBBBA, charitable giving strategies are often most tax-efficient when coordinated with itemization planning.

Who is the donor?

Any individual or entity may make a charitable contribution.

Individuals

For individuals who itemize deductions, charitable contribution deductions are generally limited to a percentage of adjusted gross income (AGI), depending on the type of property donated and the classification of the recipient organization. For example, cash contributions to public charities are generally deductible up to 60% of AGI.

Because the standard deduction is now permanent under OBBBA, many taxpayers do not itemize every year. As a result, charitable deductions may provide tax benefits primarily in years when itemized deductions exceed the standard deduction.

Estates and trusts

Estates may claim an unlimited charitable deduction for testamentary charitable gifts, regardless of the recipient's classification. Trusts may deduct charitable contributions pursuant to the governing instrument and applicable tax rules.

Businesses

C corporations may deduct charitable contributions up to 10% of taxable income, with excess contributions carried forward for up to five years. Pass-through entities, such as partnerships and S corporations, allocate charitable deductions to their owners, who apply the individual AGI limitations.

What type of charity is receiving the donation?

To be deductible, a charitable contribution must be made to a qualified organization described in IRC §501(c)(3). The Internal Revenue Code classifies nonprofit organizations into various tax categories, including private foundations and public charities. An organization must meet certain requirements set forth in the IRC to qualify as a non-profit organization. Some organizations must also file a request with the Internal Revenue Service to gain status as a tax-exempt non-profit charitable organization under IRC §501(c)(3) of the tax code.

Public charities

A public charity is a charitable organization that (a) has broad public support, (b) actively functions to support another public charity, or (c) is devoted exclusively to testing for public safety. Common examples of public charities include churches or conventions of churches, educational institutions, certain hospitals and medical research organizations, and federal, state, or local governments.

Private foundations

Private foundations are charitable organizations that do not qualify as public charities and are often funded by a single individual, family, or corporation. Contributions to private foundations are generally subject to more restrictive AGI limitations.

Contributions to civic leagues, social or sports clubs, labor unions, chambers of commerce, most foreign organizations, lobbying organizations, homeowners' associations, political organizations, and candidates for public office are not deductible.

What type of property is being donated?

The deductibility of a charitable contribution depends on the type of property donated and whether the recipient is a public charity or a private foundation. The table below summarizes allowable deductions:

Type of Property Contributed	Public Charity		Private Foundation	
	Deduction Value	AGI Limitation*	Deduction Value	AGI Limitation*
Cash or Check	Face Value	60%	Face Value	30%
Ordinary-Income Property	Cost Basis	50%	Cost Basis	30%
Short-Term Capital Gain Property	Cost Basis	50%	Cost Basis	30%
Long-Term Capital Gain Property (General Rule)	FMV	30%	Cost Basis	20%
Long-Term Capital Gain (Reduced Election)	Cost Basis	50%	N/A	N/A
Qualified Appreciated Stock	FMV	30%	FMV	20%
Tangible Personal Property - Unrelated Use	Cost Basis	50%	Cost Basis	20%

**NOTE: Donor-advised funds (DAFs) and private operating foundations are generally treated as public charities for these purposes. Proposed Treasury Regulations affecting DAFs were issued in 2023 but have not been finalized as of January 2026.*

Five-year carryforward of unused charitable deductions

Charitable contributions that cannot be deducted in the year made due to AGI limitations may be carried forward for up to five years. The AGI limitation applicable in the year of the original contribution continues to apply during the carryforward period.

Unused charitable deduction carryforwards generally expire at death, although they may be claimed on the decedent's final income tax return. If a taxpayer claims the standard deduction in a carryforward year, the carryforward is reduced by the amount that would have been deductible had the taxpayer itemized deductions.

As a result of H.R.1 of the 119th Congress (commonly known as the One Big Beautiful Bill Act), the estate, gift, and generation skipping tax exemptions amounts enacted under the Tax Cuts and Jobs Act of 2017 were made permanent. Effective January 1, 2026, the exemption amount will be \$15 million per person (\$30 million for a married couple), with annual adjustments for inflation. For asset transfers in excess of the applicable exemption amount and otherwise subject to such taxes, the highest applicable federal tax rate remains at 40%. In addition, under different rates, rules, and exemption amounts (if any), there may be state and local estate, inheritance, or gift taxes that apply in your circumstances. Please consult your own tax or legal advisor for advice pertaining to your specific situation. This tax-related discussion reflects an understanding of generally applicable rules and was prepared to assist in the promotion or marketing of the transactions or matters addressed. It is not intended (and cannot be used by any taxpayer) for the purpose of avoiding any IRS penalties that may be imposed upon the taxpayer. New York Life Insurance Company, its agents and employees may not give legal, tax or accounting advice. Individuals should consult their own professional advisors before implementing any planning strategies. These materials are prepared by The Nautilus Group®, a service of New York Life Insurance Company, and are made available to all Nautilus Group member agents and, as a courtesy, to select agents of New York Life Insurance Company. SMRU 5018777 Exp. 01.31.2029