Chapter 1

Introduction

Private philanthropy has long been a cornerstone of financial support for charitable organizations in the United States. In addition to the obvious benefits to society, philanthropic support provides the donor with a tax-efficient means to transfer wealth.

The tragic events of September 11, 2001, created a substantial surge in charitable contributions intended for victims of the disasters and their families. Scores of new organizations were created to collect contributions and disburse funds to the intended recipients. The IRS acted rapidly to expedite the process for organizations to apply for exempt status.

Although the primary motive of charitable giving to an organization is to support a charitable purpose, tax planning plays an important role. In recent years, the IRS has increased its scrutiny of charitable giving. For example, substantiation requirements for income tax deductions have been made more stringent and the use of charitable trusts has been limited.

The basic tax rules on charitable giving revolve around when the donation takes place, whether the recipient is a "charity," what gifts qualify, what substantiation is needed, what the amount of the deduction is, and what limitations apply.

To benefit from a gift of a charitable contribution, a donor must itemize deductions on his or her tax return. There was a brief time when charitable deductions were permitted without the need to itemize deductions and eliminating the need to itemize is a recurring tax proposal. For higher income taxpayers, itemized deductions are subject to a reduction based on income; this adjustment is also scheduled to change.

Donors to charities are faced with many options. For example, an individual may wish to transfer assets outright to a charity or retain an interest for a period of years so that an income stream is created for the donor or named beneficiaries. By understanding the basic rules and working with a tax professional, donors can benefit themselves, family members, or other individuals and the charitable organizations of their choice.

This book explores different charitable giving alternatives, focusing on current gifts, deferred or planned gifts, gifts of income and annuities, and charitable bequests. It covers the advantages and disadvantages of each type of gift, as well as the funding alternatives and assets that may be utilized. Finally, the book describes the federal tax implications of charitable giving. Federal tax aspects include income tax, estate tax, and gift tax aspects of different charitable gifts. State tax law treatment of charitable contributions should also be reviewed when considering charitable contribution planning.

The rules relating to gifts by corporations, trusts, and estates, however, are generally beyond the scope of this analysis. In addition, the tax rules applicable to transfers to non–U.S. charities are not discussed in any detail.

These charitable giving strategies have been developed from the combined experience of many professionals at PricewaterhouseCoopers. The recommended tax planning techniques should be useful in a wide variety of situations, but they may not be appropriate for everyone. Because each individual has unique circumstances, a tax professional should be consulted before implementing these strategies.