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Understanding charitable giving strategies

Given the range of funding alternatives and strategies, it's important for those who are philanthropically minded to understand their options. A well-crafted approach can help optimize benefits for the nonprofit organization that is receiving the gift, while providing valuable tax benefits to the donor.

Charitable giving tax benefits

The tax deduction available depends on the nature of the charitable contribution and the type of organization.

Type of organization	Cash	Ordinary income or short-term capital gain property	Long-term capital gain property (e.g., appreciated stock)	Tangible personal property (if long term)
Public charity	60% of AGI	50% of AGI (based on the cost basis of property)	30% of AGI (based on the FMV (fair market value) of the property*)	30% of AGI (based on FMV if property is for "related use" by the charity)
Private foundation[1]	30% of AGI	30% of AGI (based on the cost basis of the property)	20% of AGI (based on the cost basis of the property, or FMV if qualified appreciated stock)	20% of AGI (value of charitable gift depends on w hether or not it is for related use by the charity[2])

AGI – Adjusted Gross Income.
For more details consult IRS publication 526,Charitable Contributions.

Charitable giving options

Qualified charitable distributions (QCDs) from IRAs

- Allows a tax-free distribution from an individual retirement account (IRA) if transferred directly to a qualified, public charity.
- (DAFs (Donor Advised Fund) and private foundations are not eligible).
- New provision allows a one-time distribution of up to $54,000 to a charitable trust or gift annuity.
- IRA owner or beneficiary must be at least age 70½ at the time of the distribution.
- Must not exceed $108,000 annually and can include required minimum distributions (RMDs).[3]
- Does not qualify to be claimed as a charitable deduction on the tax return.
- May be a tax-efficient option for retirees claiming the standard deduction on their tax return.

Source: IRS Publication 526, Charitable Contributions, 2025 figures.
* If electing to base the deduction on the cost basis of the property instead of the FMV, a 50% of AGI limit applies.
1. Private (operating) foundations are treated the same as public charities for purposes of deducting charitable contributions. Non-operating private foundations differ from operating foundations since they generally grant funds to other charitable organizations. These foundations do not directly perform any charitable programs or services.
2. If property is not for related use by the nonprofit organization, the charitable deduction is based on the lesser of FMV or cost basis and the AGI deduction limit is 30%. If property is for related use, the deduction can be based on FMV if greater than the cost basis of the property.
3. The amount of a QCD is reduced by the cumulative amount of prior deductible IRA contributions, if any, that occurred after attaining age 70½.

Donor-advised funds (DAFs)

- Allow a donor to make tax-deductible contributions into a fund with the flexibility of requesting grants to charities over time.
- Donor receives a tax deduction at the time of the contribution.
- Are generally managed by a third-party organization with the potential for investment growth over time.
- Generally allow low minimum and ongoing contributions.
- Contributions may be made in cash or in other forms, such as appreciated stock.
- May be an attractive option for taxpayers who are looking to "lump" several years' worth of charitable gifts within one tax year to itemize deductions on their tax return.
- Donors need to be aware that the contribution into a DAF is irrevocable.

Private foundations

- May allow a family to create a legacy of philanthropy over multiple generations while maintaining control over funding, investment management, grant making, operations and administration.
- Must adhere to strict IRS rules on making annual distributions (generally must meet or exceed an annual payout rate of 5% of net assets).
- May provide significant income and estate tax savings depending on the size of the endowment.
- Flexibility to pay expenses and hire staff (including family members).
- Establishment and compliance with IRS requirements can be costly and time-consuming, and generally requires a sizable initial endowment to be considered cost-effective.

Charitable trusts

- Referred to as "split interest" gifts since they provide benefits to the charity and the donor (or their beneficiaries). The amount of the charitable gift for tax deduction purposes will depend on the term structure of the trust and current interest rates.
- Can be structured to provide a remainder interest (charitable remainder trust, or CRT) or a lead interest (charitable lead trust, or CLT) to a charity.
- A remainder trust will provide an income stream to the donor (no less than 5% annually, not to exceed 50% of trust assets) or beneficiaries over a set period of time not to exceed 20 years (or based on life expectancy) while the charity benefits from the remainder interest.
- A lead trust will provide an income stream to a charity based on a certain number of years before leaving the remainder interest to beneficiaries.
- Can structure income stream as an annuity (fixed percentage of initial value) or a unitrust (percentage of assets based on annual value).
- Provide an income tax deduction to the donor, and may provide estate tax benefits by removing assets from the donor's estate.
- May be a tax-efficient option for donating appreciated stock.
- Prevailing level of interest rates may benefit one approach over the other (higher interest rates generally benefit CRTs, while lower interest rates generally favor CLTs).
- May be appropriate for those looking to satisfy philanthropic goals while retaining access to funds via an income stream or remainder interest to beneficiaries.

Comparison of charitable giving options

	QCD	DAF	Private foundation	Charitable trust
Tax deduction	None (IRA distribution is tax-free)	Based on FMV subject to AGI limits	Based on the cost basis of FMV of the property being donated	Calculated based on trust terms and IRS Section 7520 rate
Organizations you can support	Public charities or one-time distribution to a charitable trust/ gift annuity	Public charities	Different charitable organizations; grants must be for charitable purposes	Public charities and, generally, private foundations
Growth potential of contribution	No	Yes	Yes	Yes
Donations of non-cash items	No	Yes	Yes	Yes
Income tax deduction limit	Not applicable	60% for cash, 30% for appreciated assets	30% for cash, 20% for appreciated assets	Based on the type of trust, term limit, income stream (CRT), and applicable IRS interest rate
Tax on investment income	Not applicable*	None	Excise tax of 1.39% on net investment income	Depends on the nature of trust

Source: IRS Publication 526, Charitable Contributions, 2025 figures.
* SECURE 2.0 law allows a one-time QCD to a charitable trust or gift annuity of up to $50,000 (indexed for inflation). Income distributed by the charitable trust or gift annuity may be tax able income to the beneficiary.

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