# American Horse Council's Tax Considerations Checklist

## Charitable Donations in the Equine Sector

If a horse or other property is given as a charitable contribution, the donor may generally deduct the fair market value of the property. However, when property given to a charity would result in ordinary income to the donor if the property had been sold instead, the amount of the gift must be reduced by the amount of the ordinary income that would have been reported by the donor had the property been sold instead of donated. Also, if a horse that is eligible for capital gain treatment has been depreciated and is then donated to the charity, the amount of the gift is the value of the horse reduced by the amount of depreciation recapture. The deduction amount must also be reduced if gifted tangible personal property does not in some way relate to the purposes that give rise to the charity's tax exemption.

The equine gift may not be in exchange for a financial or other economic type of benefit. In addition, a written appraisal performed by a qualified appraiser is generally required for each horse (or other property) donated when the claimed charitable contribution deduction is in excess of $5,000.

### Deduction by an Individual

An individual may claim an itemized deduction for contributions to a qualified charitable organization (Schedule A – Form 1040). The charitable deduction in any tax year is limited to a percentage of the taxpayer's contribution base determined by the type of organization receiving the donation and the type of property donated. Any excess in the tax year may be carried forward for 5 years. If married individuals file a joint return, the percentage limitation depends on the aggregate contribution base of both spouses. A limit also applies to the amount of the charitable deduction allowed for gifts of appreciated property and is imposed before applying the percentage limitation.

Generally, the percentage levels for an individual are:

- 60% of the taxpayer's contribution base for contributions of cash for tax years 2018 through 2025 to public charities
- 30% of the taxpayer's contribution base for contributions of capital gain property to public charities
- 50% of the taxpayer's contribution base for contributions of cash before 2018 and ordinary income property to tax exempt organizations
- For contributions of ordinary income property to qualified charitable organizations other than public charities, the lesser of 30% of the taxpayer's contribution base or the excess of 50% of the taxpayer's contribution base for the tax year over the amount of charitable contributions qualifying for the 50% deduction ceiling, including carryovers
- 20% of the taxpayer's contribution base for contributions of capital gain property to qualified charitable organizations that are not public charities

## Deduction by an Individual (Cont'd)

For tax years beginning in 2020 only, an eligible individual may claim an above-the-line deduction in computing adjusted gross income of up to $300 for any qualified charitable contribution in response to the COVID-19 crises. (CARES Act IRC Section 62(a)(22), and (f)(1).)

The 60% limitation on the deduction of charitable contributions of cash by individuals is suspended for qualified charitable contributions made in 2020 in response to COVID-19. An individual may deduct any qualified cash contribution as long as the contribution does not exceed the individual's contribution base (100%) and any excess may be carried forward for 5 years. (CARES Act Section 2205(a).) There are limitations depending on the organization's status as a charity.

If the taxpayer is a partner in a partnership or a shareholder in an S corporation, the election to claim the deduction with respect to the qualified contribution is made by the partner or shareholder.

## Deduction by a Corporation

A corporation's deduction for charitable contributions is limited to 10% of its taxable income for the year (25% for qualified contributions in 2020) calculated without regard for items like deductions for dividends, deduction for a bond premium, and any net operating loss or capital loss carryback to the tax year.

Corporate donors that qualify as farmers or ranchers may deduct certain qualified conservation contributions of real property interests up to the excess of the donor's taxable income over all other allowable charitable contributions.

Charitable contributions that exceed the 10% limit may be carried over the corporation's 5 succeeding tax years. But deductions in those years are also subject to the maximum limitation (IRC Section 170(d)(2)). And, except for the carryover rule, a deduction is allowed only for the charitable contribution paid during the tax year.

## Conclusion

A corporation's deduction for charitable contributions is limited to 10% of its taxable income for the year (25% for qualified contributions in 2020) calculated without regard for items like deductions for dividends, deduction for a bond premium, and any net operating loss or capital loss carryback to the tax year.

Corporate donors that qualify as farmers or ranchers may deduct certain qualified conservation contributions of real property interests up to the excess of the donor's taxable income over all other allowable charitable contributions.