

Deducting Charitable Contributions Through Your Business

Not all deductions are treated equally. It's important to work with your C.P.A. when you are considering making charitable contributions through your business. The deductions may be treated differently depending on the type of entity, the property donated and the receiving charity.

C corporations are technically the only business structure that can take a deduction when donating to charity. An LLC is not recognized as a business for federal income tax purposes. The IRS requires LLCs to file as a corporation, an S corporation, or a partnership. S corporations, LLCs, partnerships, and sole proprietors can make donations, but the business owners/shareholders have to report the donations as a personal charitable deduction on Schedule A (Form 1040). This provides a tax benefit only if you are able to itemize your deductions.

The IRS outlines in Publication 535 that cash payments to an organization or charity by a business may be deducted as a business expense if the payments are not charitable contributions or a gift and are directly related to your business. This is generally the case if the company gains something in return. For example, you donate \$100 to support a local organization and, in exchange, they advertise your business in a program. This illustrates a business expense and not a charitable deduction. If the payments are gifts or charitable contributions, they cannot be deducted as a business expense. A donation of business services or volunteering time does not qualify as a charitable deduction, and, therefore, carries no tax benefit.

C Corporations

If your business is a C corporation, any cash plus the fair market value of the property given to a recognized charity is generally deductible. However, these deductions are limited to 10% of the company's taxable income. Any amount not deducted in the current year may be carried forward a maximum of five years. In the carryover year, the deduction is once again subject to the 10% limitation

(along with any current-year contributions). Carryovers are utilized only after deducting any current-year contributions. If carryovers from several years are present, the oldest carryovers are used first. It is important to note that a charitable carryover may not be deducted if it increases a net operating loss carryover.

S Corporations, Partnerships, and Sole Proprietors

Unlike C corporations, S corporations, partnerships, and sole proprietors do not have the business taxable income limitations on charitable donation deductions. If you operate as an S corporation (Form 1120S), a partnership (Form 1065) or sole proprietor (Schedule C), your contributions will be subject to the same charitable contribution rules that apply to individuals. S corporations and partnerships are pass-through entities; therefore, the income and expenses flow through to the shareholders' personal returns. The shareholders are responsible for reporting on the earnings and also their pro rata share of the charitable deductions. The same holds true for the sole proprietor.

The business should make the contribution from its own accounts and keep receipts. The IRS limits the total of all charitable contributions on the personal return to 50% of the adjusted gross income, with some variations in specific cases. The 50% deduction limit applies to most charitable organizations, but certain organizations have a 30% limit. Property that would have produced a capital gain if it had been sold versus donated, carries a deduction limit of 30% or 20%, depending on the organization. You first deduct the 50% limit contributions, followed by the 20% and 30% donations. In order to take a deduction, the organization must be a qualified tax-exempt charity that has been granted tax-exempt status. You can search the "Exempt Organizations Select Check" on the IRS website to confirm if a charity qualifies.

As you can see, the rules can be complex. Consult your C.P.A. with any questions surrounding your contributions.

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