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The reduction rules are federal income tax rules that reduce the amount of the charitable deduction available for gifts of certain kinds of property.

Normally, the charitable deduction for a gift is based on the fair market value of the gift at the time of donation. The basic reduction rules says, however, that the deduction must be reduced by the amount of gain in the property that would not have been treated as long term capital gain if the donor had sold the property for its fair market value.

Property that is subject to the reduction rules include short term capital gain property (property held less than 12 months), inventory, and property subject to depreciation recapture. Since the capital gain in short term capital gain property is taxable as ordinary income, for example, the deduction available for a gift of short term capital gain property is based on the donor's cost basis in the property. The reduction rules apply whether the gift is made outright or in the form of a planned gift.

Another reduction rule requires a donor of tangible personal property to base his charitable deduction on his cost basis in the property unless the donee charity will put the property to a use that is related to the organization's charitable purpose. For example, a donor of an antique auto to an auto museum may base his deduction on the fair market value of the auto. If he were to donate the antique auto to a blood bank, however, he would have to base his deduction on his cost basis in the auto.

This calculation can be created in our Planned Giving Manager (PGM) software. If you are a PGM license holder, see the Help section in the software for more details.