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Charitable Giving & Your Taxes

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- *If your donation includes equipment or machinery, consult with publications of commercial firms or trade organizations to find out your property's value. Many of these organizations regularly publish information about going sales prices for cars, boats, airplanes, etc. Caution: When donating used vehicles to charity, special rules apply. See the paragraph on "Donating Used Vehicles to Charity."*

Your research will probably show that most used merchandise has a value that is considerably less than your property's original cost!

However, some items you give away may have actually gone up in value (e.g., antiques, jewelry, or artwork). To determine the value of these, hire a qualified appraiser. Regardless of whether the value of a donated item has gone up or down, if its current value is more than \$5,000, a professional appraisal is mandatory (exception: most publicly-traded securities do not require an appraisal). Check with your tax advisor about the details that must be included in the appraisal and the IRS-required form.

Donating Used Vehicles to Charity:

Congress has imposed some tough rules that substantially limit the deduction for a car donation. If the deduction exceeds \$500, the deduction will generally be limited to the gross proceeds from the charity's sale of the vehicle. In addition, a written acknowledgment from the charity is required and must contain the name of the donor, donor's tax ID number and the vehicle identification number (or similar number) of the vehicle. The IRS provides Form 1098-C for this purpose. There is an exception to these rules for donated vehicles that the charity retains for its own use "to substantially further the organization's regularly conducted activities." Please call this office for more information.

Record of Non-Cash Donations:

Keep a list of the donated items and include a description of the property, its cost and FMV, how you determined the FMV, and when and how it was acquired. If the property has appreciated in value, be sure to get an appraiser's report (since special rules apply to appreciated property, check with your tax advisor before you make your contribution). Request a receipt at the time of the donation and make sure it includes the date and the organization's name and address.

If the value of donated items is \$250 or more, in addition to the information noted above, a written acknowledgment from the organization must state whether the charity provided any goods or services in return for the gift, and if so, a good faith estimate of the value of the goods and services provided. You must have this written acknowledgment by the date you file your return or the extended due date of the return, whichever date is earlier.

Recordkeeping for Cash Donations

For monetary (cash, check) gifts, regardless of the amount, you should have a canceled check (bank record) or a written communication from the donee showing:

- *The name of the donee organization,*
- *The date of the contribution, and*
- *The amount of the contribution.*

The recordkeeping requirements may not be satisfied by maintaining other written records. This means that unless the charitable organization provides a written communication, cash donations put into a "Christmas kettle," church collection plate, and pass-the-hat collections at youth sporting events will not be deductible. Donations by debit or credit card can be substantiated by bank records.

While many organizations may take the responsibility of providing a receipt, the tax law actually places this responsibility of getting acknowledgment on the gift donor. "This provision does not impose an information requirement upon charities; rather it places the responsibility upon taxpayers who claim an itemized deduction of \$250 or more to request (and maintain in their records) substantiation from the charity."

The charity's acknowledgment must contain the following:

- *The amount of money and a description of the value of other property, if any, contributed*
- *Whether the charity provided any goods or services in return for the gift*
- *A description and reasonable estimate of the value of the goods or services provided*

The tax advice included in this brochure is an overview of some complex tax rules and is not intended as a thorough in-depth analysis of the tax issues discussed. Do not act on the information included in this brochure without first determining how these issues apply to your particular set of circumstances and if there are any special tax laws or regulations that might apply to your situation.



Charitable Giving & Your Taxes



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Your Charitable Gifts Make a Difference for Others AND for Your Taxes

When you give away cash or goods to qualified nonprofit organizations, you will probably be able to take a tax deduction as partial reward for your generosity. However, the IRS rules for deducting charitable contributions aren't as simple as many people might think. For example, deduction limits can apply, and certain gifts require timely written acknowledgment from the recipient organizations.

Qualified Charitable Organizations

In order for a donation to be deductible, it must be given to a "qualified U.S. organization." Not all nonprofit organizations qualify, but the IRS regularly publishes a list of the ones that do. In general, the qualifying groups can be categorized as:

- governmental bodies;
- nonprofit groups organized for religious, educational, scientific, or literary purposes;
- war veterans' groups;
- fraternal societies and lodges; and
- certain nonprofit cemetery companies.

Examples of typical of qualified organizations include churches, nonprofit hospitals, colleges and universities, school booster clubs, libraries, public parks and recreation facilities, etc.

When gifts are made to fraternal organizations and lodges, only the part of the gift that those organizations give away to other qualified charities is deductible. In addition, gifts to a cemetery company can't be deducted if they are ear-marked for the care of a specific cemetery lot.

Limits on Charitable Deductions

In general, deductions for charitable gifts are limited to 50% of a taxpayer's adjusted gross income. However, depending on the kind of organization and the type of property being given, that limit can dip as low as 20%. If the individual's income is high enough, a partial benefit of his or her charitable deductions can be lost due to an overall limit the IRS imposes on itemized deductions.

Gifts That Return a Benefit to You

If a taxpayer is audited on his or her contributions, the IRS looks to see whether voluntary donations were made intentionally or whether it was just payment for services provided by a charitable organization. For example, payments to a parochial school for a child's tuition or to a church for a family wedding give the taxpayer a benefit and don't qualify as contributions. Payments to charities for raffle tickets, lotteries, or bingo also fall in this category and aren't deductible – with these one is really purchasing the chance to win that new TV, trip to Hawaii, etc.

In certain situations, only a partial benefit may be received for what is given. In that case, one can generally deduct the amount of the gift that is over and above the value of what is received. Say you paid \$50 to attend a fundraising dinner at your church. The church determines that the value of the dinner and program is \$15. Your deductible charitable contribution is \$35, i.e., the amount of your payment that exceeds \$15.

Giving Your Time

Although you may volunteer many hours working for a charitable organization, the value of your time is not deductible. However, if you incur expenses (e.g., travel costs to and from the charity's location) related to volunteer work, those costs are deductible. Other out-of-pocket costs incurred on behalf of the charity may be deductible as well.

Travel Away From Home for Charity

A charitable deduction can be taken for travel expenses (including meals and lodging) incurred while performing services for a charity in an out-of-town location. However, two important criteria need to be met in order to get this deduction:

1. *You must perform services for the organization in an official capacity while you're away from home.*
2. *No "significant element of personal pleasure" must be connected with the travel. Does this mean your trip can't be enjoyable? No, but it does mean that the primary purpose of your travel must be related to your charitable duties and not be a personal vacation.*

Non-Cash Donations

Donations don't always have to be in cash. One can also deduct the "fair market value" (FMV) of donated items like used clothing, furniture, and appliances (FMV is the price goods are likely to sell for on the open market).

Condition of Contributed Items:

The condition of the contributed item is important, because except as noted below, tax law does not permit a charitable contribution for clothing or household items unless the contributed items are in "good used condition" or "better." They also do not allow a deduction for items with minimal monetary value, such as used socks or undergarments.

There is a provision that permits a deduction for clothing and household goods that are not in good used condition or better. Under this provision, a deduction can be taken if (1) the amount claimed as a deduction is greater than \$500, and (2) the taxpayer includes with the taxpayer's return a qualified appraisal with respect to the property.

Household items include furniture, furnishings, electronics, appliances, linens, and other similar items. Food, paintings, antiques, and other objects of art, jewelry and gems, and collections are excluded from the definition of household items for this purpose.

Large Donations:

There are other rules that apply to certain types of non-cash contributions including limitations, appraisal requirements, deduction recapture, etc. Therefore, when contemplating an unusual or substantial non-cash contribution, or a series of contributions, it is appropriate to consult with this office.

Valuing Your Donation:

Perhaps the most difficult part of making non-cash donations is determining the value of the goods being given away. The decision about value is left to you and, unfortunately, there aren't any cast-in-concrete formulas to give you the "right" answer.

Here are a few general guidelines that may help:

- *Consider the condition of each item being given away. Compare the style of your donation with current styles. Categorize each item being given by its condition (e.g., good, excellent, new, etc.)*
- *Do a little detective work to find out what the item you are donating would sell for in the current market. A visit to the local thrift shop, a quick glance through newspaper classified ads, perusing online sites selling used items, or a stop at a neighborhood garage sale should provide you with a pretty good idea of the prices of goods like yours.*