



update

Record of Noncash Donations:

Keep a list of the items you donate that contains a description of the property, its cost and FMV, when and how you acquired it. 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). At the time of your donation, get a receipt from the charitable organization containing the date and the organization's name and address.

Recordkeeping for Cash Donations

For cash gifts, you should have a canceled check or a receipt from the donee. In addition, for each gift of \$250 or more, you must obtain a timely acknowledgment of your gift from the donee organization; otherwise, a deduction is not allowed.

While many organizations may take the responsibility of providing a receipt, the tax law actually places this responsibility of getting acknowledgment on you as 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*

Client
Information
Series



The purpose of this pamphlet is to provide current information on tax, financial, and business developments. It suggests general tax planning ideas that may be appropriate in certain situations. The information and opinions are generalizations and may not apply to all taxpayers; it is important that you seek appropriate advice before implementing any of the ideas suggested.

Charitable Giving & Your Taxes



inform

advise



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 your donations to be deductible, you must give 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.

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

When you make gifts to fraternal organizations and lodges, only the part of your 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 earmarked for the care of a specific cemetery lot.

Limits on Charitable Deductions

In general, deductions for your charitable gifts are limited to 50% of your adjusted gross income. However, depending on the kind of organization and the type of property you're giving, that limit can dip as low as 20%. And if your income is high enough, you can lose partial benefit of your charitable deductions due to an overall limit the IRS imposes on itemized deductions.

Gifts That Return a Benefit to You

If you are audited on your contributions, the IRS looks to see whether you intended to make voluntary donations or whether you were just paying for services provided by a charitable organization. For example, your payments to a parochial school for a child's tuition or to a church for a family wedding give you 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 you're really purchasing the chance to win that new TV, trip to Hawaii, etc.

However, sometimes you get only a partial benefit for what you give. In that case, you can generally deduct the amount of your gift that is over and above the value of what you receive. 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 you incur on behalf of the charity may be deductible as well.

Travel Away From Home For Charity

You can take a charitable deduction for travel expenses, including meals and lodging, you incur while performing services for a charity in an out-of-town location. However, you must be able to meet two important criteria 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.*

Noncash Donations

Your donations don't always have to be in cash. You 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).

Valuing Your Donation:

Perhaps the most difficult part of making noncash donations is determining the value of the goods you are giving 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 you:

- Consider the condition of each item you are giving away. Compare the style of your donation with current styles. Outdated and/or damaged property may have little or no market value. Categorize each item you are giving by its condition (e.g., poor, 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, or a stop at a neighborhood garage sale should provide you with a pretty good idea of the prices of goods like yours.

- If your donation includes a vehicle, equipment, or machinery, you could 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.

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, you will want to 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 appraisal). Check with your tax advisor about the details that must be included in the appraisal and the IRS-required form.