

Last Minute Charitable Deductions Even Basics Not so Simple

Lets Talk Tax

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Helping others elevates your spirit. Sharing your blessings as the holiday nears will lift the spirit of others. It may even lower your tax bill if you itemize deductions and properly document your giving. Unfortunately, IRS rules regarding deductible contributions are not as simple as they may seem. Today, I will discuss these rules and the documentation the IRS will require for you to prove your deduction. My goal is to help you minimize your taxes so you can maximize your giving without running afoul of tax rules.

Tax Definition: A deductible charitable contribution is a donation of money or property to a “qualified organization.” The contribution must benefit the organization and not be set aside for any specific individual. Qualified organizations include (but are not limited to) churches, synagogues and other religious organizations, public parks and government entities (if contribution used to benefit public), nonprofit schools, hospitals and volunteer fire departments, and not-for-profit public charities such as the ASCPA, Salvation Army, or the Boys and Girls Club. Other than churches and governments, most organizations must apply and be recognized as “qualified” by the IRS. A list of these organizations can be found in IRS Publication 78.

To qualify as a charitable contribution, the giver cannot receive anything of “tangible” value in return. For example, if you purchase tickets to a charity dinner for \$100 and the value of the dinner is \$50, you can only deduct \$50 as a charitable contribution. If you give the organization more than \$75 and receive any goods or services in return, the organization must give you a statement that breaks down the deductible and nondeductible portions of the gift.

What proof will you need to substantiate your donations? Here is a quick rundown:

Contributions by cash and check: Over the past few years, the IRS has tightened their stance on charitable “cash” giving. The days of deducting the “twenty” anonymously tossed in the church collection plate (or Salvation Army bucket) are long gone. Those who donate cash must obtain a receipt from the organization to claim a deduction. Donations made by check can be substantiated with a cancelled check. If you donate \$250 or more to any organization in one day, however, a cancelled check will not be enough. A written receipt will be required to prove your donation. Year-end statements provided by the organization will generally suffice for this purpose.

Household Goods such as furniture, tools and clothing: As you search for lights and Christmas decorations, you may have the opportunity to clear your garage and closets of items you can donate to charity. To be deductible, these items must be in “good used condition.” If they are, their “fair market value” (what the item would sell for at a yard sale or thrift shop) can be deducted. It is, however, your responsibility to retain proof of the donated items and their value. Writing “three bags of clothes” on your receipt will do little to help substantiate your donation if the IRS should question it.

To prove your noncash donations, consider the following steps: 1) Take a picture of the donated items. This will help prove the items donated and their condition; 2) List donated items on a sheet of notebook paper, and 3) Use a valuation guide (free at <http://salvationarmyusa.org> or <http://goodwill.org>) to estimate each item’s fair market value. These records will also help you complete form 8283, “Noncash Charitable Contributions,” if total noncash contributions exceed \$500.

This article has discussed the basics of deducting charitable contributions. There remain, however, many deduction limits and reporting requirements related to income level, nature of donated items (such as vehicles or appreciated property), organization’s use of donation, and type of organization donated to. In my next column I’ll discuss these rules as they relate to the donation of vehicles. As always please remember that this or any

article does not constitute or replace the advice of a qualified professional. If you have any questions regarding your charitable giving or any other tax issue, please feel free to call our office at (304) 267-2594 to speak with a tax professional.

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