Good news for good Samaritans : a guide to deducting charitable contributions

American Institute of Certified Public Accountants. Communications Division

Good Deeds Deserve Good Deductions

If you are among those who donate time, cash, and/or property to charity, you probably do so for personal satisfaction and other intangible benefits. However, it's in your best interest to know and take advantage of the tax benefits as well.

If you generally itemize on your tax return only every other year or so, consider "bunching" your contributions into alternate years. Donating more than usual in the years when you think you'll be able to itemize could save you money when you file your tax return.

This brochure provides an overview of the relatively complex rules for deducting charitable contributions.

If you have specific questions or need advice on determining a strategy for charitable giving, consult a CPA. CPAs are aware of the latest tax developments and can provide professional advice to help you get the deductions you deserve.

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A Guide To Deducting Charitable Contributions

Good News For Good Samaritans

If you belong to the large group of Americans who donate time, cash, and/or property to charitable organizations, this brochure has some good news for you. As long as you itemize on your tax return, you can take a deduction for your generosity. Here are some tax breaks that could save you money, and some guidelines you need to follow.

Eligible Charitable Organizations

Make sure your planned gifts are to organizations that are *qualified* to receive tax-deductible contributions. Not all tax-exempt organizations are so qualified. In general, you may deduct donations to *domestic nonprofit* organizations or foundations operated exclusively for the following purposes:

- **Religious.** Payments for pew rents, assessments, and dues to churches and synagogues are deductible.
- **Charitable.** Including organizations such as Boy Scouts, Girl Scouts, American Red Cross, community funds, cancer societies, CARE, Salvation Army, and YM/YWCA.
- **Scientific, literary, and educational.** Including hospitals, research organizations, colleges, universities, and associations established for such purposes as education, combatting crime, or aiding public welfare.
- **Prevention of cruelty to children or animals.**
- **Fostering amateur sports competition.**

Other eligible groups include nonprofit veterans' organizations and also many federal, state, and local government agencies, as long as your gift is for public purposes.

If you are in doubt about a particular organization, ask your certified public accountant (CPA) about its tax status or refer to *IRS Publication 78, Cumulative List of Organizations.*

The Most Personal Contribution: Time

Undoubtedly, the most personal gift you can make to any charitable organization is your time. Although you may not deduct the value of volunteered time or services, you are allowed to deduct related, unreimbursed out-of-pocket expenses, such as phone calls, postage, and stationery.

If you use your car to travel to and from your volunteer commitments, you can deduct actual operating costs or a flat rate of 12 cents per mile. You can also deduct parking and tolls.

In situations where your volunteer activities require you to travel — for example, if you are chosen to represent your chapter of a charity at a national convention — you may be able to deduct 100 percent of your unreimbursed transportation and lodging costs, and 50 percent of the amount you spend on meals as long as there is no "significant element of personal pleasure, recreation, or vacation" to your trip.

And don't forget incidental expenses. For example, you may be able to deduct the cost of ornaments to decorate a nursing home recreation area. The costs of buying and cleaning a uniform required and used exclusively in serving the organization are also deductible.

Bear in mind that your out-of-pocket expenses are categorized as cash contributions and should be entered as such on your tax return. Be sure to keep receipts and records.

Deducting Cash Contributions

Cash contributions are the mainstay of most charitable organizations. One thing you don't have to worry about is giving too much. Under tax law, you can generally make deductible cash contributions of up to 50 percent of your adjusted gross income — provided they are to qualified organizations. Also, be aware that there have been changes in the tax law regarding documentation of cash contributions of $250 or more. (See **Recordkeeping Requirements.**)

Payments made partly as a contribution and partly in consideration for goods or services furnished to the donor by the charity — referred to as *quid pro quo contributions* — are *not* fully deductible. For example, if you buy a $100 concert ticket for a charity fund-raiser and the equivalent ticket normally costs $40, you may deduct only $60. If you choose not to attend the event *and* return the ticket to the charity to be resold, however, you may deduct the full $100.

If your quid pro quo contribution is more than $75, as in the example above, the charitable organization must give you a written disclosure statement that includes a good-faith estimate of the value of the goods or services you received. This disclosure can be furnished as part of either the charity's solicitation (on an invitation to a fund-raiser, for example) or in its acknowledgement of the contribution.

If the contribution is $75 or less, it is up to you to determine the fair market value of whatever you receive from the charitable organization. Also, no disclosure statement is required if you receive intangible religious benefits or items of "insubstantial value," since there is no quid pro quo. The IRS guidelines for determining insubstantial value are adjusted each year for inflation, so you may want to check with your CPA.

Deducting Gifts of Property

Even if you don't have any cash to spare, you still might be able to make a charitable contribution. An old computer or desk gathering dust in the basement, or other infrequently used items, could be the ideal donation — and deduction.

Note: The amount of your deduction will depend on a variety of factors, including:

- The type of property donated
- How long you owned or held it
- The nature of the charitable organization
- Whether the charity's intended use of the property relates to the group's tax-exempt purpose

Whenever the amount of your deduction for all noncash gifts is more than $500, you must complete *Form 8283, Noncash Charitable Contributions,* and attach it to your tax return. To determine your deduction, you must establish the fair market value of the donated property. You might, for example, check the price of comparable items at a thrift shop.

When you donate personal property valued in excess of $5,000 — for example, artwork or collectibles — you are required to obtain an appraisal from a qualified, independent professional no earlier than 60 days preceding the date of the contribution. The appraiser must sign and date Form 8283. Be sure to keep a copy of the detailed appraisal summary for your records. In some cases, you may be required to submit it with Form 8283.

Donating a long-term asset (held for more than one year) that has increased in value can maximize the tax savings from charitable contributions. In many cases, you may be able to deduct the fair market value of the asset without paying income tax on the appreciation.

If you contribute assets held one year or less, or property that wouldn't produce a long-term gain if sold on the open market, your deduction is limited to your cash basis in the property (what it cost you).

For investment property that has declined in value, CPAs suggest that you first sell the property and then donate the cash proceeds. This allows you to take advantage of both the capital-loss and charitable donation deductions.

Note: Deductible contributions of property generally cannot exceed 30 percent of your adjusted gross income.

Recordkeeping Requirements

For cash donations of $250 or more — You may no longer rely solely on a canceled check but must obtain written substantiation for every *separate* cash donation of $250 or more. The written acknowledgement must include the amount of the contribution (or a description of donated property), along with a description and good-faith estimate of the value of any goods or services you received. (See **Deducting Gifts of Property.**) This documentation is needed before filing your return.

For cash donations of less than $250 — Required documentation still includes a canceled check, a receipt from the charitable organization showing its name and the amount and date of the contribution, or other records containing this information. Don't forget the requirements for quid pro quo contributions of more than $75. (See **Deducting Cash Contributions.**)