Charitable Contributions... Know the Rules

Americans are generous people – in 2010, they gave more than $290 billion to charities despite the weak economy. Knowing the rules will help you to take advantage of deductions at tax time. BY RICK RODGERS, CFP®

MOTIVATING FACTORS for charitable giving vary, but income tax usually plays a role in the timing and amount of gifts. The IRS has tightened the rules for charitable giving over the past decade to prevent abuses. It is helpful to understand the rules for deductible gifts if you plan to take advantage of the deduction.

CHARITABLE GIFTS NEED TO BE DOCUMENTED. When making cash gifts of less than $250, you can use a canceled check, credit-card statement or a simple receipt from the charity. Cash gifts of more than $250 require a note from the charity that shows the amount, date and name of donor. The note must also state, "No goods or services were provided in exchange for these gifts." If something was provided in exchange, the note should state what it was and the value of the goods or services.

GIFTS OF PROPERTY ALSO NEED TO BE DOCUMENTED. The same note is required and you need to keep reliable records of the gift, the charity, the date, and the fair market value and cost basis. The note will need to include a description of the property, and where and when it was given. Property gifts of less than $250 don't require this – clothes to Goodwill, etc.

PROPERTY GIFTS GREATER THAN $500 REQUIRE FORM 8283, PLUS THE OTHER INFORMATION ABOVE. Gifts of a car, plane or boat also require form 1098-C.This form is provided by the charity. Gifts of property worth over $5,000 require an appraisal summary to be attached to your tax return. Gifts of artwork worth more than $20,000 require the entire qualified appraisal, which must be included with your tax return. One exception to the appraisal requirement is when you are giving publicly traded securities and the market value is readily available.

DOCUMENTING THE GIFT PROPERLY IS ONLY THE FIRST STEP. There are also strict rules for valuing the gift. Cash gifts require no valuation. You can deduct the full amount of your cash gift up to 50% of your adjusted gross income (AGI) in any one tax year. Excess deductions can be carried over to the next tax year. You can deduct the excess in each of the next five years until it is used up, but not beyond that time. Your total contributions deduction for the year to which you carry your contributions cannot exceed 50% of AGI for that year.

VALUING GIFTS OF PROPERTY IS MUCH MORE COMPLICATED. There are three valuation options: 1) fair market value; 2) cost basis; and 3) zero. The valuation methods used depend on the circumstances that apply. Gifts of property that are considered ordinary income must use cost basis for their value. Cost basis equals what you actually paid for it less any depreciation taken earlier on your tax return. Ordinary income gifts are those that were held short-term (less than 12 months), inventory or something you created (referred to as "creative works by donor").

Gifts of property that have been held longer than 12 months can deduct fair market value unless:

1. Property is given to a private foundation (except qualified stock).
2. Taxpayer chooses to take a special election – then cost basis is used.
3. Unrelated use – fair-market value cannot be used when the charity is going to sell the donated item right away.

You can deduct the full fair-market value of appreciated property up to 30% of your AGI in any one tax year. The special election allows you to use cost basis and deduct up to

50% of AGI. This can only be taken on property given to a public charity.

The biggest tax advantage comes from giving appreciated property when you can deduct fair-market value and avoid paying capital-gains tax. Publicly traded securities are one of the easiest items to value. If the security is sent by regular mail, use the value of the security on the date of mailing. If you deliver the security through a broker acting as your agent, the valuation is used for the date the security is transferred to the organization.

The IRS has identified certain types of property for which it has created special rules for valuations.

- **CLOTHING OR HOUSEHOLD ITEM.** No deduction unless in good, used condition (or better). When giving amounts greater than $500, you must have a qualified appraisal. Thrift-shop fair-market value can be used for gifts worth less than $500.
- **CAR, BOAT OR AIRPLANE.** You may only deduct what the charity sells the item for. If the charity uses it or gives it to a needy person, the charity must certify the value on form 1098-C.
- **TAXIDERMY.** Your deduction is limited to the cost of mounting the animal only.

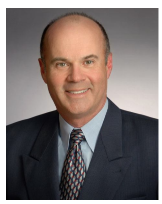
IN SUMMARY, the IRS is not trying to discourage charitable giving. It is tightening requirements to eliminate abuses. Gifts of money or property that you want to claim as a tax deduction need to go to a recognized and qualified charity or non-profit entity. The IRS maintains information on its website and in Publication 526.

Any donation that is worth more than $250 in value must have specific documentation on file.

Any deduction totaling more than $500 in aggregate requires the filer to also fill out IRS Form 8283 with his or her tax return.

For donations over $5,000, the filer needs to make sure to fill out Part B of the form specifically. This requires documentation of a licensed appraiser.

Follow the rules and you won't have any problems. Keep giving.



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