



Be Wise When Donating to Charity

by Jeff Calderon, Director

icalderon@dml.com

The United States has more than 1.5 million nonprofit organizations, according to the National Center for Charitable Statistics. That means you have ample opportunities to donate to causes you care about — and to reap sizable tax deductions. The key is to make your donations wisely. Otherwise, your deductions may not be as large as they could be. Or, worse, you might not be eligible for *any* deduction.

Qualified organizations

To claim a deduction for your contributions, you must donate to an organization that the IRS considers "qualified." Be aware that an organization can lose its qualified status.

Last year, approximately 275,000 nonprofits lost their tax-exempt status because they failed to file annual reports with the IRS for three consecutive years. These organizations can apply for reinstatement, but if they don't do so on a timely basis you won't be able to deduct your contribution to them. To see if a charity is qualified, you may download Publication 78 from <http://www.irs.gov/charities/article/0,,id=96136,00.html>.

Form of donation

The form of donation — cash, security, real estate or personal property — you choose can affect your deduction. For example, if you donate an appreciated security you've held for more than one year, it's considered long-term capital gains property and you can deduct its fair market value, rather than your "basis" in the security (generally what you paid for it).

However, the calculation varies for some types of assets. For instance, if you donate a car and the organization sells it and uses the proceeds, your deduction is generally limited to the sale amount.

Before making a donation, work with your tax advisor to determine what your deduction would be. Then consider donating the assets that will provide the greatest tax benefit. (See the sidebar "Save more by donating stock rather than cash.")

Limitations

While you can contribute as much as you'd like to charity, the IRS limits the amount you can deduct in a given year. Deductions for donations of cash and unappreciated property are limited to 50% of your adjusted gross income (AGI) if made to public charities or operating private foundations (30% if made to nonoperating private foundations). Deductions for donations of long-term capital gains property, however, are limited to only 30% of your AGI (20% if made to nonoperating private foundations).

Although excess contributions can be carried forward for up to five years, keep these AGI limits in mind *before* making a donation. If you don't, you could find that a donation you made because you wanted to save taxes this year won't provide a tax benefit until next year.

Documentation

You must maintain records that confirm contributions for which you're taking a deduction. The records required vary with the type and amount of the donation:

Cash. This includes contributions made by check, funds transfer, or debit or credit card. If the amount is \$250 or less, you'll need either a canceled check or credit card statement showing the donation date and amount and the organization's name, or a receipt from the organization that shows the donation date and amount. Cash donations of more than \$250 require an acknowledgment from the organization that also describes any goods or services you received from the charity in exchange.

Assets other than cash. If your donation is for \$250 or less, you'll need a receipt with the organization's name, the contribution date and location, plus a description of the item donated. Keep your own records that show, among other information, the fair market value of the donation and the calculations used to determine it.

If you contribute noncash assets that are worth more than \$250 but less than \$500, you'll need the information noted above, plus a donation acknowledgment from the organization that includes a good-faith estimate of its value. The recordkeeping requirements continue to grow as the value of contributions increases.

In most cases, you don't have to submit the documentation with your tax return. But, if you're audited and you don't have proper documentation, you could be denied the deduction and subject to back taxes, interest

<http://www.extendedarticle.com/Newsletters/FOC/2012/FOCfm12/FOCfm122.html> 12/9/2011 and penalties. Typically, it's sufficient to keep charitable deduction documentation for three years after you file the tax return on which the deduction is claimed.

Achieve your goals

Thinking through potential donations' tax ramifications may enable you to both support the causes that matter most to you and maximize your tax benefit. Because the rules are complex, working with a tax professional can help you achieve your goals. •