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Charitable Contributions

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The year 2011 is quickly slipping away, and it's that time when people look to make charitable contributions. Who can I make a donation to? How much can I donate? What do I need to have if I want to take the donation on my tax return? These are all good questions.

You may deduct a charitable contribution on your tax return if the contribution is made to, or for the use of, any of the following organizations:

- A state or United States possession
- A community chest, corporation, trust, fund, or foundation organized or created in the U.S. or its possessions, and organized and operated exclusively for charitable, religious, educational, scientific or literary purposes, or for the prevention of cruelty to children or animals
- A church, synagogue or other religious organization
- War veterans' organization
- Nonprofit volunteer fire company
- Domestic fraternal society

Contributions that cannot be deducted on a tax return include: contributions made to other individuals, contributions made to nonqualified organizations (civic leagues, social and sports clubs, labor unions, and chambers of commerce), contributions from which you derive some type of benefit, contributions to groups that are run for personal profit, homeowners associations, and contributions involving partial interest in a property.

Contributions must be paid in cash or other property before the close of the year to be deductible, no matter whether you use the cash or accrual method of accounting for your records. If you donate property other than cash to a qualified organization, you may generally deduct the fair market value of the property. If the property has appreciated in value, some adjustments may have to be made. If a benefit is received as a result of making a contribution to a qualified organization, the only amount that can be deducted is the amount of the contribution that is more than the value of the benefit received. Usually, a contribution is considered made at the time of its unconditional delivery.

Clothing or household items can also be donated to charitable organizations. Household items include: furniture, electronics, appliances, linens, and other similar items. Special rules apply also for the charitable contribution of vehicles, stocks/bonds and property. For clothing and household items a deduction is allowed for the fair market value of the clothing/household items donated. The IRS does not give a set formula for valuing clothes and household goods and recommends looking at the similarly priced goods in thrift stores when determining value. Some charities also publish price guides for donated goods. Usually a tax deduction for donated clothing can only be taken if the clothes are in "good used condition" or better.

Record-keeping becomes one of the most important items in tracking donations. For those cash contributions (those including cash, check, debit or credit card or payroll deduction), one of the following must be kept for the deduction to be taken:

- A cancelled check, bank statement or credit card statement
- Receipt (or letter or other written communication) from the qualified organization showing the name of the organization, the date of the contribution and the amount of the contribution
- For payroll deductions, you must keep a pay stub, W-2 or other document furnished by the employer that shows the date and the amount of the contribution, a pledge card or other document prepared by the qualified organization that shows the name of the organization

For contributions of $250 or more of cash, a deduction can only be claimed if you have an acknowledgment of the contribution from the qualified organization or certain payroll deduction records. If more than one contribution of $250 or more is made, then a separate acknowledgment for each contribution is required that lists each contribution and the date of each contribution and shows the total contributions. In calculating whether a contribution is $250 or more, do not combine separate contributions (for example, if a contribution is made each week to a church for $25, the weekly payments do not have to be combined. Each payment is a separate contribution).

Noncash contributions require different record-keeping guidelines based on the amount of the contribution as follows:

- Less than $250 – required to get and keep receipt from charitable organization showing name of charitable organization, date of contribution and reasonable detailed description of the contribution
- At least $250 but not more than $500 – same as above but are also required to have an acknowledgment of the contribution from the qualified organization (which needs to be a written acknowledgment), verification of any goods or services were or were not received as a result of the contribution
- Over $500 but not more than $5,000 – must have all of the documents described in the above two bullet points as well as a description of how the property was obtained (purchased, gift, bequest, inheritance, or exchange), the approximate date the property was received or completed (if manufactured, produced or created), and the cost or other basis of the property given as a charitable contribution
- Over $5,000 – requirements are the same as the above three bullet points but generally must obtain a qualified written appraisal of the donated property from a qualified appraiser

If the total deduction for all noncash contributions for a year is over $500, IRS Form 8283 must also be attached to the tax return, and Section A of Form 8283 must be completed. For items over $5,000, Form 8283 must be attached, and Section B of Form 8283 must be completed. The IRS can disallow deductions claimed if Form 8283 is not attached to the 1040 tax return (when it is required).

Autos, property and stocks/bonds are also types of charitable contributions, but specific rules apply for valuing these type of contributions. Please consult your tax advisor for specifics on reporting these types of items.

Charitable contributions are reported on Schedule A (Form 1040) lines 16 – 19. Individuals may claim charitable contributions deductions on their personal tax returns, but are limited for any one year to 50% of the individual's "contribution base" (defined as adjusted gross income less any net operating loss carryback applicable to the taxable year). Excess contributions not taken in one year may be carried forward to the next year. Excess contributions can be carried forward for a period of five years, but not beyond that time. Special rules exist for the carryover of a qualified conservation contribution, which can be carried forward for 15 years.

For each category of contributions, all carryover contributions are deducted only after taking all allowable contributions in that category for the current year. If there are carryovers from two or more prior years, the carryovers from the earlier year are used first.

Now is the time to clean out the closets and basements of your house. Be sure to make charitable contributions before December 31 and be sure to save the receipts for your tax returns. Charitable contributions can be a great way to help an organization and at the same time help save money on individual tax returns.

Happy Holidays.

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