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Personal Financial Services

Year-end charitable giving tips and reminders

December 2009

The end of the year is a popular time for making charitable donations. These 10 tips and reminders may help you make the most of the gifts you give.

Act now. To guarantee a 2009 charitable deduction, donors should either mail a check by December 31 or charge the donation to a credit card by December 31. Both will result in a current year deduction even though the charity may not receive or process the gift until January of the following year. Remember that only taxpayers who itemize their deductions on their personal income tax returns (rather than relying on the standard deduction) are entitled to a tax benefit from charitable donations.

Consider contributing appreciated stock. When you donate appreciated stock held for more than one year to charity, you will generally receive a full fair market value deduction on the date of the gift and avoid paying tax on the built in gain. Alternatively, consider selling depreciated stock and contributing the sales proceeds. The sale at a loss will produce a capital loss deduction where the gift of the stock would be limited to its fair market value.

Deduct relevant travel expenses. Travel expenses (including meals and lodging) incurred in performing services for a charitable organization are deductible if there is no significant element of personal pleasure, recreation or vacation associated with the travel. Automobile travel related to a charitable purpose is deductible at 14 cents per mile. It should be noted that the general rule is the value of services provided to a charitable organization is not deductible.

Carry forward any contributions exceeding your deduction limits. Taxpayers are limited in the amount of deductions they can benefit from each year by 50%, 30% or 20% of their current year's adjusted gross income as reported on the annual tax return, Form 1040. The limitation depends on the type of property donated (for example, cash vs. stock) and the charitable recipient (for example, a university vs. a private family foundation). Excess contributions above the percentage limitations can generally be carried forward for five years to allow for a permitted deduction.

Get it in writing. All charitable donations must be evidenced by bank records such as a cancelled check or by a written acknowledgement from the charitable recipient referencing the amount and the date of the gift. Gift of cash to charities without a written acknowledgement of receipt can be challenged. The safest bet is to write a check, even for those small "miscellaneous" gifts we all may give throughout the year. Donors making charitable contributions of $250 or more must receive a written acknowledgement from the charity before the filing of their tax return claiming the deduction. A cancelled check will not be enough to support a donation of $250 or more. The written acknowledgement must quantify if goods or services were provided to the donor that would reduce the amount of the charitable deduction. A common example of such a reduction occurs when a ticket is purchased to attend a charitable gala. The written acknowledgement will identify the value of dinner and/or entertainment provided in arriving at the deductible amount of the total ticket purchase.

Obtain a qualified written appraisal for large gifts. Charitable donations of property in excess of $5,000 ($10,000 for closely held stock) must be supported by a written appraisal. (Note: publicly traded stock with a readily ascertainable fair market value is excluded from the appraisal requirements.) Please use IRS Form 8283 to report such gifts and appraisal requirements. Note that taxpayers must use Form 8283 to report noncash property donations in excess of $500 (all similar items of property donated to one or more charities are treated as a single item in determining whether the $500 threshold is met) even though a written appraisal is not required until the value exceeds $5,000. Please note the IRS has raised the bar on what is a "qualified appraisal." In general, the appraiser you choose must be licensed or certified to appraise the type of property being gifted in the state the property is located.

If you donate an automobile, find out if the charity uses or sells it. Gifts of automobiles (also boats and planes) to charity have become quite popular. If you make such a contribution and the charity sells the vehicle rather than using it in carrying out its charitable purpose, the charitable deduction is generally limited to the amount the charity receives on sale. This must be reported to the donor and the IRS on Form 1098-C. If the charity uses the vehicle in its charitable endeavours, the taxpayer will still receive a Form 1098-C but is entitled to a fair market value deduction. Note the Form 8283 requirements above to insure that you are properly documenting such a gift and deduction.

Other items: Gifts of used clothing and other household items are only deductible if the property is in good condition and the amount of the deduction is limited generally to thrift shop value.

Be aware of where your charity is based. The general rule is charitable donations to organizations outside the US are not deductible by US taxpayers. To assist US taxpayers in making contributions for the benefit of foreign charities, many such charities have US based "friends of" organizations that support the foreign based entity. Gifts to US based "friends of" organizations are generally tax deductible for US taxpayers.

Consider donating part of your annual IRA distribution. In 2009, donors over the age of 70 1/2 can direct up to $100,000 of their required annual IRA distribution be transferred directly to charity without having to take the amount so directed into income. While no charitable deduction is permitted for such a transfer, this is a powerful way to help your favorite charity or charities in a difficult economic environment.

Understand the various charitable giving structures available to you. For a more significant program of charitable giving, donors should consider the use of a donor advised fund or a private foundation. While beyond the scope of this limited review, donor advised funds and private foundations are powerful charitable giving tools that can also provide a great way to involve an entire family in philanthropic endeavours.

Charitable giving is both rewarding and can be tax effective. As the rules can be quite complex, please consult with your tax advisor to insure the most effective and tax efficient plan of charitable giving is adopted.

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