

ARTICLE

MAKE THE MOST OF CHARITABLE GIFTS

Charitable gifts let you do well for yourself while you do well for others. And Congress loves to be on the side of doing well by doing well for others. The tax code is generous to a fault regarding charitable gifts. In fact, many tax reformers include deductions for charitable gifts in their otherwise “flat” tax proposals.

There are several ways to write off charitable gifts depending on what you give and any “strings” you keep attached. You can deduct up to 50% of your adjusted gross income for cash gifts to “501(c)(3) organizations” or public charities. These include churches, symphonies and museums, schools and colleges, and traditional charities like the United Way. If you give more than 50% of your adjusted gross income in a single year, you can carry forward the excess for 15 years. You can deduct up to 30% of your adjusted gross income for cash gifts you make to private foundations. If you give more than 30% of your adjusted gross income, you can carry forward that excess for up to five years.

Depending on how much you give, you may need some paperwork to audit-proof your deduction. If your gift of \$75 or more entitles you to dinner or a banquet, the organization has to disclose the value of those benefits. (You don’t need to reduce your deduction for token items such as calendars and tote bags or “intangible religious benefits.”) If you give more than \$250, you’ll need a written receipt dated no later than the filing date of your return. If your donation to a college entitles you to buy athletic tickets, you can deduct 80% of your gift. The right to buy tickets is valued at 20% of the gift, regardless of the amount.

You can deduct charitable gifts as business expenses if you can show they bear a direct relationship to your business and you make them with a reasonable expectation of financial return commensurate with the amount paid. You can offer charitable gift coupons, pay part of your income or sales to charity, or link gifts to the business you generate through the charity.

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Gifts of Property

Many donors claim rich deductions for charitable gifts without ever spending a dime of cash. Don't overlook gifts of property and appreciated assets for valuable deductions:

- Gifts of clothing, furniture, electronics, and household items are deductible at fair-market value, such as the price they would bring at a resale shop. These deductions can be far more valuable than you realize. Consider buying software, available at any office-supply store, for tracking gifts and their value. You might be surprised how much you save!
- Gifts of life insurance are valued at the policy's cash value, plus any ongoing premiums you pay through the charity.
- Deductions for remainder interests in your home or other property are determined according to the property's value, your age, and the current "Section 7520" rate (published monthly by the IRS).
- If you're selling your home or other property that includes a structure to be demolished after the sale, consider donating the structure to your local fire department for "target practice." You'll get a charitable deduction equal to the structure's fair market value!

Gifts of Appreciated Assets

Appreciated assets such as securities, real estate, and artwork that you've held for more than a year make ideal charitable gifts.

- You can deduct the fair market value of the gift. (For securities, fair market value is the average of the high and low sale prices on the date of the donation. For real estate, artwork, and personal property, you'll need an appraisal. Appraisal fees are a miscellaneous itemized deduction.)
- You avoid tax on capital gains you would pay if you sold the property then gave cash.
- If you give art or tangible personal property (books, furniture, etc.) your deduction depends on how the charity plans to use it. If the charity plans to use it for "exempt" purposes, such as displaying donated art for students to study, deduct the fair market value. If the charity sells the gift, your deduction is limited to your basis or actual cost, whichever is less.

Used cars and trucks have become popular charitable gifts. But Congress and the IRS have cracked down on abusive valuations. For gifts after December 31, 2004 you can deduct the vehicle's fair market value only if the recipient uses it for "exempt" purposes (such as a church using a van to drive parishioners). If

the charity sells the vehicle, your deduction is limited to the charity's actual proceeds. If you claim more than \$500, you'll generally have to attach a certification to your return that states the vehicle was sold in an arm's-length sale and includes the gross proceeds from the sale.

Volunteer Expenses

You can't deduct the value of time you volunteer to charitable organizations. But you can deduct the following volunteer expenses as charitable gifts on Schedule A:

1. Travel, meals, and entertainment related to volunteer and charitable activities (actual expenses or 12 cents per mile, plus parking and tolls)
2. Telephone calls and office supplies
3. Convention expenses
4. Part of organizational dues (the organization can tell you how much)
5. Uniforms and work clothes, including laundry and dry-cleaning expenses, for clothing not usable as ordinary street clothing (Girl Scout uniforms, etc.)

This is intended for general interest and not as specific legal or accounting advice for anyone. You should consult your tax advisor to get more information.