

TIPS FOR CHARITABLE GIVING

Q: *I recently received a letter from an out-of-state charity that does work that I am interested in supporting. Is there any way to check whether the charity is legitimate?*

A: The Internal Revenue Service publishes a list of charities that it has determined are tax exempt. You can find this list, Publication 78, on the IRS website. It may also be available at your local library. Keep in mind, however, that the list is not complete. For example, churches and public charities with gross receipts less than \$5,000 may be treated as tax-exempt without filing an application. These organizations are not listed in Publication 78.

Q: *Can I deduct contributions to foreign charities?*

A: The law generally requires that for a charitable contribution to be deductible, it must be made to an organization that was created or organized under the laws of one of the states or possessions of the United States. However, this rule can be modified by treaty and has been modified by a treaty with Canada.

Even if donations are made to a charity formed in the United States, if the donation is earmarked to be used in a foreign country, it may not be deductible.

Q: *Do I need to get a receipt for small cash donations that I make to various local charitable fundraisers?*

A: Under current law, you do not need a receipt for donations under \$250. You can rely on your own written records, such as a diary, to substantiate a charitable donation of cash. However, beginning in 2007, you will need a bank record or written communication from the charity to substantiate any cash contributions. The receipt from the charity must indicate the name of the charity, the date of the contribution, and the amount of the contribution. It might be a good idea to get in the habit of requesting a receipt for every donation.

Q: *Can I deduct amounts that I pay for entertainment books and raffle tickets purchased from charities?*

A: No, you cannot take a deduction for a contribution to the extent that you receive something of value in return. You may, however, deduct the cost of all raffle or lottery tickets against any gambling winnings that you have.

Sometimes charities provide a token gift, such as a dinner or an appreciation gift, in exchange for a charitable contribution. In these cases, the charity is required to identify the value of that gift and the amount of your contribution that is deductible. The deductible amount will be the amount of the contribution less the value of the gift.

Q: *How much can I deduct if I contribute clothing and household items to a charity?*

A: A new law provides that you may only deduct the fair market value of clothing and household items that are in good used condition. Items that are in fair or poor condition are not deductible. Be aware that under the new law, Congress has given the IRS the authority to prohibit deductions for any item with minimal monetary value, such as used socks or undergarments. Although the IRS has not yet prohibited such deductions, it will likely do so in the near future.

Q: *How do you determine the fair market value of used clothing and household goods?*

For used clothing and household items, the fair market value is the amount that such items could be sold for at a consignment or thrift store. Remember, it is your responsibility to determine the fair market value. This may take some research on your part and there are some software programs available that can assist you in this regard.

It is important to make an itemized list of items that you are donating and it is a good idea to take and save pictures of the items in order to document your deduction. If you claim deductions for non-cash contributions totaling more than \$500, you must submit a copy of IRS Form 8283, *Non-cash Charitable Contributions*, with your tax return.

Finally, a special rule applies to the donation of a single piece of clothing or household item for which a deduction of more than \$500 is claimed. In this case, you must also submit a “qualified appraisal” of the item with your tax return. A qualified appraisal is an appraisal prepared by an individual holding special credentials as an appraiser.

Q: *Is it true that I can make charitable donations directly from my IRA?*

A: A law passed in August 2006 allows an individual who is age 70 ½ or older to contribute up to \$100,000 directly to charities from an IRA, without having to treat the donation as taxable income. Although you do not take a deduction for the contribution, this is still a benefit to high-income taxpayers who often lose a portion of their tax deductions due to certain income phase-out rules. As an added benefit, the charitable donation counts toward the required minimum distribution that must be made to all IRA owners and beneficiaries age 70 ½ and older. Note, however, that this opportunity is only available in 2006 and 2007, and expires after 2007.