IRS Offers Tips for Year-End Charitable Donations

AccountingWEB.com - *Dec-15-2006* - 'Tis the season of gift-giving. Individuals and businesses whose holiday traditions include making contributions to charity should recall the Pension Protection Act put into law last summer made several important changes to tax laws regarding charitable giving, including a new way of giving for older owners of individual retirement accounts (IRAs).

Some of the most significant changes include:

- Clothing and household items such as furniture, electronics, appliances, and furnishings, donated to charitable organizations after August 17, 2006, must be in good used condition or better, in order to be deductible. This rule regarding condition does not apply if a taxpayer is claiming a deduction of $500 or more for a single item and includes a qualified appraisal for the item with their return.

- Money donated to charity during taxable years beginning after August 17, 2006, must be substantiated by a bank record or written communication from the charity indicating the name of the charity, the date the donation was made and the amount of the contribution. Canceled checks, bank or credit union statements and credit card statements are all considered bank records as long as they contain the necessary information (name of charity, donation date, and amount of donation.) For donations made by payroll deductions, the taxpayer should retain a pay stub, Form W-2 wage statement or other documents furnished by the employer, showing the total amount withheld for charity, along with the pledge card showing the name of the charity.

New Tax Break for IRA Owners

IRA owners, age 70.5 years or older, can directly transfer up to $10,000 per year, tax-free, to an eligible charitable organization in tax years 2006 and 2007. Eligible IRA owners do not have to itemize their deductions to take advantage of this new provision, however, funds must be contributed directly by the IRA trustee to the eligible charity. Amounts transferred in this manner are not taxable and no deduction is available for the amount given to charity. The transferred amounts do count in determining whether the IRA owner has met the IRA's required minimum distribution rules.

NOTE: Not all charities are eligible under this provision. Examples of non-eligible recipients include donor-advised funds and supporting organizations.

The Internal Revenue Service (IRS) also offer these reminders to help taxpayers plan their holiday-season and year-end donations:

- Contributions are deductible in the year made. Thus, donations charged to a credit card before the end of the year count for 2006. This is true even if the credit-card bill isn't paid until next year. Also checks count for 2006, as long as they are mailed this year.
- Check that the organization is qualified. Only donations to qualified organizations are tax-deductible. IRS Publication 78, available online and at many public libraries, lists most organizations that are qualified to receive charitable contributions. The searchable online version can be found on the IRS web site under "Search for Charities". In addition, churches, synagogues, temples, mosques and government agencies are eligible to receive deductible donations, even though they often are not listed in Publication 78.

- For individuals, only taxpayers who itemize their deductions on Schedule A can claim a deduction for charitable contributions. This deduction is not available to people who choose the standard deduction, including anyone who files a short form (1040A or 1040EZ). A taxpayer will have a tax savings only if the total itemized deductions (mortgage interest, charitable contributions, state and local taxes, etc.) exceed the standard deduction. Use the 2006 Schedule A to determine whether itemizing is better than claiming the standard deduction.

- For all donations of property, including clothing and household items, get from the charity, if possible, a receipt that includes a description of the donated property. If a donation is left at a charity's unattended drop site, keep a written record of the donation that includes a description of the property and its condition.

- The deduction for a motor vehicle, boat or airplane donated to charity is usually limited to the gross proceeds from its sale. This rule applies if the claimed value of the vehicle is more than $500. Form 1088-C, or a similar statement, must be provided to the donor by the organization and attached to the donor's tax return. See IRS Publication 526, Charitable Contributions, for more information.

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