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FINANCIAL FOCUS



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Your Accounting for a New Economy

Charitably Inclined?

The Income Tax Benefits of Giving

Do you give regularly to a religious organization? Perhaps you make an occasional gift to a charity like the Salvation Army, United Way, or Red Cross? It's said that at good deed is its own reward, but when it comes to your federal income tax return, there's a little more to it than that - Uncle Sam rewards your generosity by allowing a deduction for qualified charitable contributions. The rules, however, can be confusing.

Itemizing deductions

First, in order to deduct a charitable contribution, you've got to file IRS Form 1040 and itemize your deductions on Schedule A. So, if your allowable charitable deduction plus all your other itemized deductions doesn't add up to more than your standard deduction (for example, married couples filing a joint return are entitled to an \$11,400 standard deduction in 2009), you generally won't realize a tax benefit from the charitable contributions you've made. And because total itemized deductions are currently reduced for higher incomes (this won't be the case in 2010, but it is for 2009), your charitable deduction may consequently be limited as well.

Qualified organizations

You can only deduct contributions that are made to qualified organizations. Churches, synagogues, temples, and mosques automatically qualify. Almost all other organizations have to apply to the IRS. An organization should generally be able to tell you if it is a qualified organization. You can also check IRS Publication 78, Cumulative List of Organizations Described in Section 170(c) of the internal Revenue Code of 1986, which is available online at www.irs.gov.

Did you receive a benefit?

Generally, if you make a contribution and receive a benefit as a result, you can only deduct the amount that's more than the value of the benefit you receive (for contributions over \$75, the charity must give you a statement describing the value of the goods and services provided to you). So, if you pay \$200 at a charity auction for a weekend getaway that has a fair market value of \$150, your deductible charitable contribution is \$50.

You can, though, deduct your entire payment to a qualifying organization if you receive only a token item or benefit in return, and the organization determines that the value is not substantial and tells you that you can deduct the full amount of your payment. (Special rules apply to payments made to colleges and universities for the right to buy tickets to athletic events.)

Limits based on income

Your deduction for charitable contributions generally can't be more than 50% of your adjusted gross income (AGI) for the year. A lower percentage AGI limitation may apply to:

- Contributions made to certain organizations (e.g., veterans' organizations, fraternal societies)
- Contributions made "for the use of" any organization (contributions held in trust for the qualifying organization)
- Gifts of capital gain property

If these limits prevent you from deducting your contributions in the current year, you're able to carry forward your excess contributions for up to five years.

What if you volunteer your time?

If you volunteer your services to a qualified organization, you are allowed to deduct unreimbursed amounts that are directly connected with the services you provide. You can deduct out-of-pocket expenses that are directly related to the use of the vehicle in providing services. You can use actual expenses, or base your auto deduction on the standard mileage rate (currently 14 cents per mile). You can also deduct parking and tolls. You can't, though, deduct the value of your time.

Recordkeeping

Make sure that you keep records that document the contributions that you make during the year.

For cash contributions, you'll need a bank record (e.g., a canceled check or a credit card statement), or a receipt from the organization that includes the name of the organization as well as the date and amount of the contribution. If you make an individual contribution of \$250 or more, you'll need a written acknowledgement from the organization that meets specific requirements.

If you made noncash contributions, the specific documentation that's required depends upon the amount of the deduction.

For additional information, see IRS Publication 526, Charitable Contributions, and discuss your situation with a tax professional.