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## CHARITABLE CONTRIBUTIONS RULES

By Victor Sy, CPA, MBA

While we generally take documentation for contributions lightly, there are a few rules that we have to follow.

1. **STRICTER RULES FOR DONATED VEHICLES:** New law restricts your donation to **gross sales proceeds from the eventual sale of your vehicle by charity**. The fair market value at the time of donation has become irrelevant. For example, you bought a car in 2005 for \$20,000 and plan to donate it in 2011 when its fair market value is \$3,000. The charity sells it for \$600. You can deduct \$600 only, not \$3,000. The new provisions do not apply if the charity has significant intervening use or material improvement, which, by the way, is rare and theoretical. (Note that the old normal donation rules apply if the value of the vehicle is \$500 or less). Request Form 1098-C from the charity.
  2. **CASH CONTRIBUTIONS** must be evidenced by a canceled check and receipt from the charity, regardless of amount. There used to be a \$250 threshold, below which no substantiation was needed. Starting in 2007, **all cash contribution must be supported** by either bank record (cancelled check or credit card statement) or receipt (letter from organization) showing name of non-profit group, date, and amount.
  3. The following organizations **QUALIFY** for deduction: religious, educational, scientific, and literary.
  4. The following payees do **not** qualify as donation: chambers of commerce, international organizations, and social clubs. (TIP: classify and deduct chamber of commerce payments as dues).
  5. Payments to a priest, a nun, or a fire victim do **not** qualify. (The payee has to be a charitable organization with an exempt determination letter from both the IRS and the FTB).
  6. Payments to churches in other countries are not deductible.
  7. The value of services rendered to a charitable group is **not** deductible (otherwise, you would have to recognize the corresponding income also).
  8. Do not present **RAFFLE** or **BINGO** tickets at an IRS audit because neither one is deductible (since you did expect something in return).
  9. The value of **BLOOD DONATION** is not deductible (TIP: Sell it and donate the proceeds).
  10. You may deduct **auto mileage** at **14 cents per mile**.
  11. **NON-CASH CONTRIBUTIONS** fall into three groups:
    - A. Contributions up to \$500 - keep receipts showing name and address of recipient, the date, and a reasonably detailed description of the property.
    - B. Contributions over \$500 but less than \$5,000 - complete and attach section A of form 8283 to your tax return.
    - C. Contributions more than \$5,000 - complete and attach section B of form 8283. You also have to attach a signed written appraisal to the return.
- FYI: Household items include furniture, furnishings, electronics, appliances, linens, and similar items.
12. Your donations are limited to 50% of your adjusted gross income (AGI) to churches, educational institutions, and hospitals and 30% to veteran groups, fraternal organizations, and private non-operating foundations.
  13. You may carryforward unused donations in excess of these limits for the next five years. TIP: You may continue to carryover unused contributions even in years when you do not itemize deductions.

14. A charity that receives a quid pro quo (meaning that you received something back for your donation such as a \$25 dinner for a \$100 donation) in excess of \$75 must provide a written statement with a good faith estimate of the value of the goods or services furnished to you, the donor.
15. **POLITICAL CONTRIBUTIONS** are no longer deductible either as a credit or as itemized deduction for Federal taxation.
16. Gifts of **APPRECIATED PROPERTY** get very tricky. The deductible amount depends on the kind of property donated, the length of time held, and the use of the property by the recipient group:
  - A. If the recipient uses the donated personal property in a manner related to its charitable function, the full fair market value (FMV) is deductible.
  - B. If the property's use is unrelated to the recipient's function, then the deduction is limited to your basis (cost). For example, if a painting that cost \$5,000 in 1960 but was worth \$50,000 in 2011 is donated to the art department of your school, you have a good shot at deducting the whole \$50,000. If the school hangs it by the corridor, your deduction is limited to \$5,000.
  - C. If you held the property for more than 12 months, you could deduct the market value.
  - D. If you held the property for 12 months or less, your contribution is limited to its cost.
  - E. Deduction for donated inventory is always limited to its cost.
  - F. Old law used to disallow the appreciation of an artwork, stocks, or other property for Alternative Minimum Tax (AMT) purposes thereby negating any tax advantage on the regular income tax side. New law allows you now to deduct the full fair market value for both regular income tax and AMT. This is very good news for charitable organizations and philanthropists alike.
  - G. Charitable gifts of 50% capital gain properties are generally limited to a deduction ceiling of 30% of AGI when they are deducted at their full Fair Market Values (FMV). As an alternative, you may choose to have the 50% limit applied to such gifts provided you reduce the FMV of the property by the long-term capital gain attributable to that property.
17. The IRS ruled that gift coupons for as little as \$35 are wages and therefore should have withholdings and should be reported in W2. Expect challenges in court via di minimis rules.