



## **All about Taxes and Charitable Contributions**

Charitable contributions do more than help the recipient. They can make you feel good, plus give you a tax benefit at the same time.

### **Common Contributions**

Cash and checks are the most common types of contributions, but your contributions can also be made by credit card or deducted from your payroll check.

Clothing, household items and furniture contributed to churches, Goodwill Industries, St. Vincent de Paul, etc., are deductible at the lesser of your cost or its current value.

Food items donated to local food pantries are deductible at the cost of the items.

The cost of ingredients you use to bake items for charitable bake sales are deductible.

If you have a foreign or American exchange student living with you, you may be able to deduct up to \$50 a month of qualifying expenses.

If you receive a benefit from your contribution, you can only deduct the part of the contribution that is more than the value of what you receive. **Example:** You pay \$40 for a ticket to charity dinner dance. The ticket has a fair market value of \$25. Your charitable deduction is limited to \$15. You can deduct the cost of gas and oil for your car if the expense is the direct result of performing charitable work and you are not reimbursed for the expense. Most people prefer to take the standard rate of 14 cents a mile rather than trying to figure the cost of gas and oil. Some examples include mileage in connection with coaching a little league team, serving as a member of a church board or transporting Boy Scouts or Girl Scouts to scouting events.

### **Nondeductible Contributions**

Clothing or food given directly to victims of hurricanes, floods, etc. is not deductible. The items must be given directly to a charitable organization in order to be deductible.

If you purchase food at a bake sale, only the portion that is more than the value of the food can be deducted.

Political contributions are not deductible.

The value of your time is not deductible. If you volunteer to do three hours of clerical work at the Red Cross office and they normally pay \$7.00 an hour for clerical staff, you cannot deduct \$21 as a charitable contribution. Nor can you deduct the value of your time to donate blood, even if you take time off of work to do so.

You cannot deduct childcare costs that are necessary in order for you to do volunteer work. Appraisal fees you pay to determine the value of donated property are not deductible as a charitable contribution. You can claim these expenses, subject to the 2% LIMITATION, AS AN ITEMIZED DEDUCTION ON schedule A (Form 1040).

## **Limitations**

Although certain limitations may apply, a dollar for dollar reduction in taxable income is available if you itemize your deductions.

Contributions are limited to 50% of your income if they are made to U.S. charities such as churches, educational organizations, hospitals, and other nonprofit organizations.

Contributions are limited to 30% of your income if they are made to veterans' organizations, some domestic fraternal organizations, nonprofit cemeteries, and certain private foundations.

There are special rules that apply if you donate stocks, real estate, and other capital assets that would have resulted in capital gain if you had sold them.

If your contributions exceed your adjusted gross income limitations, you can carry any excess over for five years. If unused at the end of the five-year period, the contributions are lost.

## **Proof Required**

You must keep records to prove the amount of your contributions. The types of records that are required depend on whether the contribution was cash or property.

## **Cash Contributions**

1. You should keep cancelled checks, or receipts from the charitable organizations showing their name, the date, and the amount of the contribution.

2. Contributions of \$250 or more given at one time require a written receipt from the charity showing their name, the date, the amount of the contribution and the value of anything you received in exchange for making the contribution.

### **Property Contributions**

1. Records need to be kept that describe the property contributed and the method used to determine its value. You are responsible for valuing the property either through appraisal or comparison to other property. While you may get a receipt from Goodwill showing the type of property donated, they generally will not value the property.
2. Property with a value of more than \$500 requires Form 8283 to be attached to your tax return with the following information
  - How and when you first acquired the property
  - Your cost paid or other basis of the property
  - Date of the contribution
  - Value of the property when you contributed it, and
  - Method used to determine its value such as newspaper ads, stock market prices, etc.
3. A contribution of a price of property valued at more than \$5,000 also requires IRS Form 8283. Section B must be completed along with a signed appraisal by a qualified appraiser.

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*Not every item in our library will be applicable to your situation. If you need further advice, please feel free to give us a call any time at (608) 756-5354. Summit Accounting Group Inc. of Janesville, Wisconsin*

