

Reduce Your 2007 Tax Bill

By Accurately Deducting Charitable Gifts

March 1, 2008

People give to charity for many heartfelt, altruistic reasons. But as evident by the surge in online gifts flowing through our site on December 31st, the tax benefits of giving do impact our decision to support charities. We shouldn't take issue with donors who are motivated by the tax benefits of giving. In fact, many worthy charities are funded by donors who are able to make larger gifts as a result of the tax deductions they later claim.

But before you prepare your tax return, you should know that the government is increasingly concerned with taxpayers inflating the value of their gifts. In recent years, new laws have been passed to curb those who abuse the spirit of such tax breaks. And the IRS continues to scrutinize claims for charitable deductions to make sure taxpayers are entitled to such claims.

To help you maximize the tax benefits of your 2007 charitable endeavors and avoid making a false claim, Charity Navigator offers the following tips.

Document All Cash Donations

If you want to claim a charitable deduction for a cash gift, then you must be prepared to verify your claim. In other words, you can no longer deduct the spare change dropped in a charity's collection bucket without the proper documentation. If you are audited, the IRS will only accept one of the following to substantiate a monetary gift: a canceled check, credit card statement, bank statement or a written acknowledgement from the charity (showing the charity's name, the date of the donation and the amount given).

Donating on-line at Charity Navigator, through our partnership with Network for Good, helps you fulfill this requirement since all your giving records will be stored in one place enabling you to quickly obtain an annual record of your charitable giving for tax preparation.

Monetary Gifts of \$250 or More Require Additional Documentation

If you contribute \$250 or more, then you must prove to the IRS that you (a) made the donation and (b) you didn't receive anything in return for that donation. Therefore you'll need a receipt from the charity that includes the following information: the charity's name, the value of your gift, the date you made your donation and a statement verifying that you did not receive any goods or services in return for your gift.

Be Careful When Valuing a Donated Vehicle

Although a new law implemented in 2005 attempted to crack down on taxpayers who were overvaluing donated vehicles, the government reports that many taxpayers

still inflate the value of such donations. As a result, the IRS continues to take a close look at such deductions. If you donated a car worth more than \$500, then you can only deduct the amount the charity received from the sale of your car. You can use the receipt from the charity to substantiate your claim. Do not attempt to use the fair market value unless one of the following conditions apply: (1) instead of selling the vehicle, the charity keeps and uses it, (2) the charity makes improvements to the car before selling it, (3) your car is sold at a discounted price to a person with a low income, (4) or if the car is worth less than \$500.

New Rules in Effect for Donated Clothing and Household Items

Hopefully, all your donations of clothing and household items last year were in "good used condition or better." Not only do donations of junk (such as used socks) cost charities a lot of money each year to discard, but the IRS no longer permits deductions for such items. The only exception here is for any single clothing or household item worth more than \$500. For these items you can claim a deduction, regardless of its condition, so long as you submit a qualified appraisal with your tax return. And speaking of documentation, you'll want to maintain an itemized receipt from the charity for all gifts less than \$500 to substantiate your claims in case of an audit. Keep in mind that the above rules are predicated on the following conditions:

You Itemize

You must itemize in order to take a charitable deduction. Make sure that if you itemize, your total deductions are greater than the standard deduction. If they're not, stick with the standard deduction. For 2007, the standard deduction for a single filer under 65 is \$5,350; for a married couple filing jointly it is \$10,700.

You Donated to a Qualified Charitable Organization

Just because an organization is exempt from income tax doesn't mean that contributions to the organization are tax deductible. For example, 501(c) (4) organizations, like the Disabled American Veterans or the National Rifle Association of America, are allowed to spend a substantial portion of their revenue on lobbying our government so not every donation to them is tax-deductible. However, all of the organizations rated by Charity Navigator are 501(c) (3) public charities to which all donations are tax deductible.

Your Gift Was Made in 2007

If you were among the many donors that gave online on December 31st, then your gift still qualifies for a deduction on your 2007 tax return even though you paid the credit card company in 2008. If you waited until the last minute and paid by check, your gift qualifies so long as the check was mailed before January 1, 2008.