

Cash and Noncash Donations: The Ins and Outs of Charitable Contributions

Description

Figuring out charitable contributions can be a tricky thing — especially when it comes to your tax deductions. How do you determine if your cash donation is deductible? What about your noncash donation?

For starters, to be a valid tax deduction, your donation must contribute to an eligible organization. An eligible organization can include a non-profit organization; a church or other religious organization; a federal, state, or local government; a war veteran's organization; or other organizations that the IRS recognizes.

Choosing an Eligible Organization

Many organizations have their own websites, which will state whether a donation will qualify for a tax deduction. If you want to donate to an organization, but aren't sure whether your contributions are legitimately tax-deductible, check with the IRS database of eligible charitable organizations — or sign up for GuideStar.

GuideStar is an organization that specializes in providing information on millions of nonprofit organizations, including whether they are a qualified organization. It also allows you to view any organization's recently-filed tax return, including those for your favorite charities.

However, there are some organizations for which a donation could not qualify for a tax deduction. For example, donations to sports clubs, labor unions, politicians, your kids' school bake-off, or needy individuals directly.

Cash and Noncash Deduction Limitations

As much as charities appreciate donations of any amount, the IRS does have maximums on how much you can annually deduct from your taxes. Further, not all non-profits are created equal when it comes to the limitations for deductibility.

Deduction rules become a bit more complicated when you donate noncash items. This means it's best to discuss your intent with your qualified tax professional; they can help you understand the benefits and limitations for donations of cash and noncash items.

Tax deductibility for cash donations is not as complex as noncash donations. That said, cash deductions can be limited to either 50% or 30% of your annual adjusted gross income, depending on what type of organization you donate to.

But don't worry, if you are limited on how much you can deduct in a given year, you can carry over the excess contributions to the next tax year for a maximum of up to five years.

Proof of Donation

If you donate \$250 or more at a time, you should request a receipt, or charitable acknowledgement letter, from the organization.

The charitable acknowledgement letter needs to be from the organization and needs to provide key information, such as the date of the donation, the amount donated, and whether you received any benefits from your donation.

Having this information is imperative, because if the IRS questions your donations, they will request both the charitable acknowledgement letter and either your credit card statement, bank statement, or a canceled check as proof you made the donation.

There are some instances, however, wherein obtaining a receipt is not necessary. One such instance is if you donate less than \$250 at a time. Additionally, if, for example, you give your church a regular weekly donation of \$25, you don't need a receipt â?? even though your contributions will eventually add up to over \$250.

While it's important to have some kind of a record of every donation you make, receipts are not required for donations of under \$250. Further, many organizations will send you a total at the end of the year.

Deductions for Noncash Donations

Donating Publicly Traded Stock

Everyone knows cash is king. But in the world of charitable donations, cash may not be the king of kings. Cash and noncash donations can have the same effect on your tax liability, and in some instances, certain noncash donations can give you a bigger bang for your buck.

Such is the case with a donation of appreciated publicly traded stock, which you have held for longer than 12 months.

For example, if you donate these types of stocks to a qualified charitable organization, you will not have to include the gain in your income â?? which you would have to do if you had sold the stock.

The best part of this scenario is that you get the fair market value of the stock (typically the average of the high and low of the trading stock price) the day it transfers out of your account. Wait, what? Yes, it's true! If you transfer the stock, rather than selling it, you don't recognize the gain and you receive the charitable deduction on the fair market value on the date of the transfer. That's a major win!

For example, let's say you purchased stock in XYZ Company 20 years ago for \$100 and now it's worth \$1,000,000. You donate the stock to your favorite local qualified charity. In this instance, you

wouldn't recognize income on the \$999,900 gain and you'd get the charitable tax deduction of \$1,000,000.

The actual tax effect will depend on each taxpayer's specific tax situation, so it's extremely important to consult with your tax professional before making a contribution. This will allow you completely understand the benefits you'll receive.

As a warning, stock held less than 12 months may have some adverse tax consequences, so be very careful when deciding which stock to donate.

Other Noncash Contributions

Some other noncash contribution examples include clothing, furniture, household items, wine collections, art, jewelry, antiques, collectibles, automobiles, boats and recreational vehicles, and even your home.

While these types of noncash donations can qualify for deduction, it's very important to note there are very specific rules and timelines you must follow in order to claim deductions in excess of \$5,000.

In instances where you donate a noncash item that exceeds \$5,000, you need to have a professional appraisal (recognized by the IRS). You also need to have the IRS Form 8283 signed by both the charitable organization and the qualified appraiser. The signed Form 8283 will also need to be attached to your filed tax return. These rules do not apply for publicly traded stock or mutual funds.

Reducing Donations for Value Received

Everyone loves free stuff, but when NPR offers you a tote bag in return for donating, or you attend an annual gala dinner, you must subtract the value of the tote bag, meal, or any other items received, from your charitable donation.

The charity will usually tell you the value of the items you received, and will typically include the amount on your receipt. For example, if you attend a fundraising dinner and pay \$100 per ticket, your receipt should show your \$100 donation and include an amount for the value of your dinner (ex. \$25).

Only the part of your donation that excludes the value you pay for your dinner (or tote bag) is tax deductible. In this example, your tax deduction is limited to \$75 (\$100 - \$25).

Deductions and IRA Distributions

Are you receiving IRA distributions? Here is another way of reducing your annual taxable income through charitable donations.

In the Consolidated Appropriations Act of 2016, legislation made qualified charitable distributions (QCD) from individual retirement accounts permanent.

A QCD permits an annual transfer of up to \$100,000 of tax deferred IRA savings to an eligible charity. To qualify, funds must be transferred from the IRA account through a direct transfer to the charity.

It's important to note that the owner of the IRA cannot receive the funds and *then* transfer them to a charity.

To make a QCD, however, you must meet the following criteria:

- You must have attained age 70½;
- You must donate an organization that qualifies;
- The transfer must be made from an IRA (a simplified employee pension, a simple retirement account or inherited IRA does not count).

The benefit of the QCD includes a reduction of your adjusted gross income, which can affect the taxability of your Social Security benefits, can help reduce the impact of alternative minimum tax, and can reduce the limitations trimming itemized deductions.

Questions?

To learn more about receiving tax deductions from your cash and noncash donations, please [contact us](#).

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