

Tax News

December 2008

IRS Provides Tips for Year-End Charitable Donations

The IRS recently reminded individuals and businesses making contributions to charity that they should be aware of several important tax law provisions that have taken effect in recent years. Some of these changes include the following items.

Special Charitable Contributions for Certain IRA Owners

An IRA owner, age 70½ or over, can directly transfer tax-free up to \$100,000 per year from the IRA to an eligible charitable organization. This option, recently extended through 2009, is available to eligible IRA owners, regardless of whether they itemize their deductions.

Distributions from IRA-like employer-sponsored retirement plans, including SIMPLE IRAs and simplified employee pension (SEP) plans, are not eligible.

To qualify, the funds must be contributed directly by the IRA trustee to the eligible charity. The transferred amounts are not taxable to the owner and no deduction is available for the amount given to the charity. Transferred amounts are counted in determining whether the owner has met the IRA's required minimum distribution rules. Not all charities are eligible recipients, however, so check with us before making a donation.

Rules for Clothing and Household Items

In order to be deductible, clothing and household items donated to charity must be in "good used condition or better." A clothing or household item for which a taxpayer claims a deduction of over \$500 does not have to be in good used condition or better if the taxpayer includes a qualified appraisal of the item with the return. Household items include furniture, furnishings, electronics, appliances, and linens.

Guidelines for Monetary Donations

To deduct any charitable donation of money, regardless of amount, a taxpayer must have a bank record or a written communication from the charity showing the name of the charity and the date and amount of the contribution. Bank

records include cancelled checks, bank or credit union statements, and credit card statements. Bank or credit union statements should show the name of the charity, the date, and the amount paid. Credit card statements should show the name of the charity, the date, and the transaction posting date.

Donations of money include those made in cash or by check, electronic funds transfer, credit card, and payroll deduction. For payroll deductions, the taxpayer should retain a pay stub, a Form W-2 wage statement, or other document furnished by the employer showing the total amount withheld for charity, along with the pledge card showing the name of the charity.

These requirements for monetary donations do not replace the long-standing requirement that a taxpayer obtain an acknowledgment from a charity for each deductible donation (either money or property) of \$250 or more.

Additional Reminders

To help taxpayers plan their holiday-season and year-end giving, the IRS also offers the following reminders:

- Contributions are deductible in the year made. Thus, donations charged to a credit card before the end of the year count for 2008. This is true even if the credit card bill isn't paid until 2009. Also, checks count for 2008 as long as they are mailed this year.
- Check that the organization is qualified. Only donations to qualified organizations are tax-deductible. A searchable online database can be found at www.irs.gov under "Search for Charities." In addition, places of worship and government agencies are eligible to receive deductible donations, even though they often are not listed.

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- For individuals, only taxpayers who itemize their deductions on Schedule A of Form 1040 can claim a deduction for charitable contributions. The deduction is not available to people who choose the standard deduction, including anyone who files Form 1040A or 1040EZ.
- For all donations of property, including clothing and household items, get from the charity, if possible, a receipt that includes the name of the charity, the date of the contribution, and a reasonably-detailed description of the donated property. If a donation is left at a charity's unattended drop site, keep a written record of the donation that includes this information, as well as the fair market value of the property at the time of the donation and the method used to determine that value. Additional rules apply for contributions of \$250 or more.
- The deduction for a motor vehicle, boat, or airplane donated to charity is usually limited to the gross proceeds from its sale. This rule applies if the claimed value of the vehicle is more than \$500. Other requirements may apply.
- If the amount of a taxpayer's deduction for all non-cash contributions is over \$500, a properly-completed Form 8283 must be submitted with the tax return.

Doeren Mayhew Can Help

If you have tax questions about any specific charitable giving strategies, please contact the professionals at Doeren Mayhew today at (248) 244-3000.



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