

Charitable Donations: Prove Them Or Lose Them

It's not enough to be generous to deduct the amounts you donate to qualified charitable organizations during the year. You must also keep records to back up your claims. Specifically, the IRS has imposed strict recordkeeping rules for charitable contributions of \$250 or more and "quid pro quo" contributions.

Contributions Of \$250 Or More

The tax law generally permits you to deduct the full amount of cash contributions or donations made by check. To substantiate these charitable gifts, you are required to obtain a written acknowledgement from a qualified charitable organization in order to claim the deduction for a donation of \$250 or more. The acknowledgement must be obtained by the earlier of (a) the date your tax is filed or (b) the due date of the return (plus any extensions). It is up to you to provide the proof.

The acknowledgement should include the following elements:

- The amount of cash or the check.
- A description of any non-cash property that was contributed.
- If any goods or services were provided, the value of the benefit.

Key exemption: If the goods or services received consist solely of "intangible religious beliefs," you can substitute a statement to that effect. What if you make several payments over the course of the year to the same charity? Separate payments generally are not lumped together for these purposes. However, the IRS may treat a series of smaller payments totaling \$250 or more as a single payment if they are made on the same date or within a short period of time.

Note: If donations are made through payroll deductions, each paycheck is regarded as a separate payment.

Quid Pro Quo Contributions

For "quid pro quo contributions" (i.e., contributions that are partially made in exchange for goods or services) above \$75, the charity must provide a "good faith estimate" of the goods and services received and the amount of payment exceeding the value of the benefit.

Hypothetical example: Say you attend a dinner sponsored by a charitable organization. The ticket to the event costs \$100, but the dinner is valued at \$40.

Result: the charity must notify you in writing that the value of the dinner was \$40 and that only \$60 of your donation is deductible on your return.

However, a written statement is not required if you receive token goods, minimal services or intangible religious benefits in return for your donation.

Note: Responsibility for disclosing quid pro quo contributions over \$75 rests with the charitable organization. The charity can provide this information in its solicitation or upon receipt of the contribution. If a charity fails to provide a written statement, it can be penalized \$10 per contribution.

Finally remember that the rules for non-cash contributions remain in effect. You must provide additional information on your tax return if your non-cash contributions for the year exceed \$500.

Another requirement: If you donate property in excess of \$5,000, you must obtain a qualified appraisal of the value of the property. The cost of the appraisal may be deductible as a miscellaneous expense (subject to the 2% floor).