

HILLBERG NEWSLETTER

INCOME TAX, ACCOUNTING, CONSULTING AND BUSINESS ADVISORY SERVICES

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TAX PLANNING

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Feeling charitable? Great! Now let's review the tax rules

As the holidays approach, you're probably going to give a little extra to your favorite charity. As tax year 2011 ends, your kindness may bring an extra reward and lower your tax bill.

Here is a list of reminders to ensure your charitable contributions are deductible:

- You must give to a qualified organization. Also, you cannot deduct contributions to individuals, civic groups, political organizations or candidates. Go online to IRS Publication 526, Charitable Contributions, for detailed rules on what constitutes a qualified organization or Publication 78 which lists all qualified organizations.
- To deduct a charitable contribution, you must file Form 1040 and itemize deductions on Schedule A.
- If you receive a benefit because of your contribution such as merchandise at an auction, tickets to a ball game or other goods and services, then you can deduct only the amount that exceeds the fair market value of the items you received.
- The law has strict recordkeeping requirements for deducting charitable contributions. Regardless of the amount, to deduct a contribution of cash, check, or other monetary gift, you must maintain a bank or credit card record, payroll deduction records or a written receipt from the organization. The receipt must contain the name of the organization, the date of the contribution and amount of the contribution. For text message donations, a telephone bill will meet the record-keeping requirement if it shows the name of the receiving organization, the date of the contribution, and the amount given. The receipt must be obtained prior to filing your tax return.
- To claim a deduction for contributions of cash or property equaling \$250 or more, you must have a written acknowledgment from the qualified organization. One receipt may satisfy both the written communication requirement for monetary gifts and the written acknowledgement requirement for all contributions of \$250 or more.

- If you donate property, make sure you claim a realistic value. Used clothing and other items must be in good condition or better. See IRS Publication 561 to assist you in determining value. You'll need an independent appraisal for any donated item whose donated value exceeds \$5,000. If your total deduction for all noncash contributions for the year is over \$500, you must complete and attach IRS Form 8283, Noncash Charitable Contributions, to your return.
- If you are contributing an auto with a value greater than \$500, your deduction may be limited. If the vehicle is sold by the charitable organization, the taxpayer is limited to the gross proceeds from the sale. The charity must give you written substantiation within 30 days and this receipt must be included with your tax return filing. If the charity uses the car itself to further its specific purpose, you may be able to deduct full market value of your vehicle. See IRS Publication 526 for details.
- Don't forget to deduct your mileage and other out-of-pocket expenses that are not reimbursed for charitable work. Track your mileage and claim 14 cents a mile in 2011. Remember, the value of your time is not deductible.

If you have any questions concerning charitable contributions, please contact our office.

Happy Holidays!