

# A meaningful contribution

What you need to know about charitable giving

In recent years, people around the world have been affected by disasters, such as Hurricane Katrina, Cyclone Nargis and the 7.9 magnitude earthquake felt throughout much of China. Thousands of people were suddenly without the basic necessities: clothing, food and shelter. After those unfortunate events, the survival of those affected was largely dependent upon the generosity of others. Charitable contributions are a great way to simultaneously help those in need and give yourself a tax break.

*Smart Business* spoke with Brent Saunier, tax manager at Habif, Arogeti & Wynne, LLP, about the tax implications of charitable contributions.

## Can a taxpayer take a tax deduction for a contribution made to any individual or organization?

Contributions must be made to qualified organizations to be tax deductible. The IRS prohibits deductions for contributions made to specific individuals, certain private foundations, foreign governments, political organizations and candidates. I would recommend researching the organization to verify it is recognized as a charity. Internal Revenue Service Publication 78 can help you find a list of organizations that do qualify for a charitable tax deduction. Most charitable organizations that qualify you for a deduction will have 501(c)(3) tax exempt status as provided by the Internal Revenue Code. The Web site address for the publication is [www.irs.gov/app/pub-78/](http://www.irs.gov/app/pub-78/).

## When can a charitable deduction be taken?

A donation to a qualified charity is deductible in the same year in which it is made. The contribution will be considered paid when you put the check in the mail or when it is charged to your credit card.

## What type of documentation is required to substantiate a deduction in the unlikely event of an IRS audit?

Regardless of the amount of your monetary deduction, you must maintain a bank record or written communication from the organization containing the



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name of the organization, the date of the contribution and the amount of the contribution. A canceled check is no longer sufficient to substantiate a deduction.

In order to claim a deduction for contributions of cash or property totaling \$250 or more, you must obtain a written acknowledgement from the qualified organization that shows the amount of the cash and/or a description of any property contributed. The acknowledgement must also indicate whether the organization provided goods or services in exchange for your gift.

## Are there special rules for donating non-cash items?

A taxpayer is allowed to deduct the full fair market value, not the cost, of donated assets that they owned for one year or more. If the donated property has a value greater than \$500, IRS Form 8283 (Noncash Charitable Contributions) will need to be filed with their income tax return. Form 8283 provides details about the assets such as a description and their individual values. If the donated property has a value greater than \$5,000, you would generally need to at-

tach an appraisal, unless you are donating listed securities. Also, clothing and household items donated generally must be in 'good used condition to better' to be deductible.

## As a tax practitioner, could you provide us with an example of a charitable contribution opportunity that taxpayers may not be aware exists?

In recent years, we have seen a dramatic increase in the use of conservation easements as an effective tax-planning tool. Conservation easements that qualify as a charitable deduction under IRS Code Section 170(h) are legally binding permanent restrictions on the use of the land being preserved. The benefits associated with conservation easements include impressive income tax deductions as well as estate tax reductions and exclusions. The value of the easement is deductible as a charitable contribution. For most ownership entities, the amount of the deduction is currently limited to no more than 50 percent of the donor's AGI. Any excess contribution may be carried forward 15 years. At this time, the 50 percent deduction and 15-year carry forward apply to easements in place by the end of 2009, after which they will revert to the previous rules of a 30 percent deduction and a five-year carry forward. Provisions to make these greater tax incentives permanent are being promoted in Congress. Those interested in pursuing this strategy should seek assistance from qualified professionals experienced in this field.

Although many people donate out of generosity and philanthropic values, the IRS rewards taxpayers with deductions for charitable donations. Charitable giving provides taxpayers with an opportunity to reduce income taxes by leveraging tax rules while simultaneously expanding their philanthropic impact. Given our current state of economy and natural disasters, what may seem to be a small gift on your part could make a world of difference to someone in need. <<

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