

Quick Primer On Charitable Contributions

One of the main question/problem areas for taxpayers and tax preparers alike involves the charitable contribution deduction. Questions such as what is an eligible charity, how do I document my contributions, how do I value my non-cash contributions, etc. are sometimes challenging to answer. Recordkeeping is critical, however, since IRS takes a dim view of claimed deductions without substantiation.

The excerpts below from IRS and the links at the end may prove helpful to both taxpayers and tax preparers.

Organizations That Qualify To Receive Deductible Contributions

You can deduct your contributions only if you make them to a qualified organization. To become a qualified organization, most organizations other than churches and governments, as described below, must apply to the IRS.

Publication 78. You can ask any organization whether it is a qualified organization, and most will be able to tell you. Or you can check IRS Publication 78, which lists most qualified organizations. You may find Publication 78 in your local library's reference section. Or you can find it on the Internet at apps.irs.gov/app/pub78. You can also call the IRS to find out if an organization is qualified. Call **1-877-829-5500**. (For TTY/TDD help, call **1-800-829-4059**.)

Types of Qualified Organizations

Generally, only the five following types of organizations can be qualified organizations.

1. A community chest, corporation, trust, fund, or foundation organized or created in or under the laws of the United States, any state, the District of Columbia, or any possession of the United States (including Puerto Rico). It must be organized and operated only for one or more of the following purposes.
 - a. Religious.
 - b. Charitable.
 - c. Educational.
 - d. Scientific.
 - e. Literary.
 - f. The prevention of cruelty to children or animals.

Certain organizations that foster national or international amateur sports competition also qualify.

2. War veterans' organizations, including posts, auxiliaries, trusts, or foundations, organized in the United States or any of its possessions.
3. Domestic fraternal societies, orders, and associations operating under the lodge system.

Note. Your contribution to this type of organization is deductible only if it is to be used solely for charitable, religious, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals.

4. Certain nonprofit cemetery companies or corporations.

Note. Your contribution to this type of organization is not deductible if it can be used for the care of a specific lot or mausoleum crypt.

5. The United States or any state, the District of Columbia, a U.S. possession (including Puerto Rico), a political subdivision of a state or U.S. possession, or an Indian tribal government or any of its subdivisions that perform substantial government functions.

Note. To be deductible, your contribution to this type of organization must be made solely for public purposes.

Example 1. You contribute cash to your city's police department to be used as a reward for information about a crime. The city police department is a qualified organization, and your contribution is for a public purpose. You can deduct your contribution.

Example 2. You make a voluntary contribution to the social security trust fund, not earmarked for a specific account. Because the trust fund is part of the U.S. Government, you contributed to a qualified organization. You can deduct your contribution.

Examples. The following list gives some examples of qualified organizations.

- Churches, a convention or association of churches, temples, synagogues, mosques, and other religious organizations.
- Most nonprofit charitable organizations such as the Red Cross and the United Way.
- Most nonprofit educational organizations, including the Boy (and Girl) Scouts of America, colleges, museums, and daycare centers if substantially all the childcare provided is to enable individuals (the parents) to be gainfully employed and the services are available to the general public. However, if your contribution is a substitute for tuition or other enrollment fee, it is not deductible as a charitable contribution.
- Nonprofit hospitals and medical research organizations.
- Utility company emergency energy programs, if the utility company is an agent for a charitable organization that assists individuals with emergency energy needs.
- Nonprofit volunteer fire companies.
- Public parks and recreation facilities.
- Civil defense organizations.

Canadian charities. You may be able to deduct contributions to certain Canadian charitable organizations covered under an income tax treaty with Canada.

To deduct your contribution to a Canadian charity, you generally must have income from sources in Canada. See Publication 597, Information on the United States-Canada Income Tax Treaty, for information on how to figure your deduction.

Mexican charities. You may be able to deduct contributions to certain Mexican charitable organizations under an income tax treaty with Mexico.

The organization must meet tests that are essentially the same as the tests that qualify U.S. organizations to receive deductible contributions. The organization may be able to tell you if it meets these tests.

Clothing and Household Items

You cannot take a deduction for clothing or household items you donate unless the clothing or household items are in good used condition or better.

Household items. Household items include:

- Furniture,
- Furnishings,
- Electronics,
- Appliances,
- Linens, and
- Other similar items.

Household items do not include:

- Food,
- Paintings, antiques, and other objects of art,
- Jewelry and gems, and
- Collections.

Appraisal for items more than \$500. You can take a deduction for a contribution of an item of clothing or a household item that is not in good used condition or better if you deduct more than \$500 for it and include a qualified appraisal of it with your return.

Determining Fair Market Value

This section discusses general guidelines for determining the fair market value of various types of donated property. Publication 561 contains a more complete discussion. **[Also see the charitable organization links below.]**

Fair market value is the price at which property would change hands between a willing buyer and a willing seller, neither having to buy or sell, and both having reasonable knowledge of all the relevant facts.

Used clothing. The fair market value of used clothing and other personal items is usually far less than the price you paid for them. There are no fixed formulas or methods for finding the value of items of clothing.

You should claim as the value the price that buyers of used items actually pay in used clothing stores, such as consignment or thrift shops.

Household items. The fair market value of used household items, such as furniture, appliances, and linens, is usually much lower than the price paid when new. These items may have little or no market value because they are in a worn condition, out of style, or no longer useful. For these reasons, formulas (such as using a percentage of the cost to buy a new replacement item) are not acceptable in determining value.

You should support your valuation with photographs, canceled checks, receipts from your purchase of the items, or other evidence. Magazine or newspaper articles and photographs that describe the items and statements by the recipients of the items are also useful. Do not include any of this evidence with your tax return.

If the property is valuable because it is old or unique, see the discussion under *Paintings, Antiques, and Other Objects of Art* in Publication 561.

Cars, boats, and airplanes. If you contribute a car, boat, or airplane to a charitable organization, you must determine its fair market value.

Boats. Except for inexpensive small boats, the valuation of boats should be based on an appraisal by a marine surveyor because the physical condition is critical to the value.

Cars. Certain commercial firms and trade organizations publish used car pricing guides, commonly called “blue books,” containing complete dealer sale prices or dealer average prices for recent model years. The guides may be published monthly or seasonally, and for different regions of the country. These guides also provide estimates for adjusting for unusual equipment, unusual mileage, and physical condition. The prices are not “official” and these publications are not considered an appraisal of any specific donated property. But they do provide clues for making an appraisal and suggest relative prices for comparison with current sales and offerings in your area.

These publications are sometimes available from public libraries, or from the loan officer at a bank, credit union, or finance company. You can also find used car pricing information on the Internet.

To find the fair market value of a donated car, use the price listed in a used car guide for a private party sale, not the dealer retail value. However, the fair market value may be less than that amount if the car has engine trouble, body damage, high mileage, or any type of excessive wear. The fair market value of a donated car is the same as the price listed in a used car guide for a private party sale only if the guide lists a sales price for a car that is the same make, model, and year, sold in the same area, in the same condition, with the same or similar options or accessories, and with the same or similar warranties as the donated car.

Example.

You donate a used car in poor condition to a local high school for use by students studying car repair. A used car guide shows the dealer retail value for this type of car in poor condition is

OJAG Code 16
29 January 2008

\$1,600. However, the guide shows the price for a private party sale of the car is only \$750. The fair market value of the car is considered to be \$750.

The following links provide some particular guidance with respect to valuation of household goods. Note that we do not endorse, sanction, nor guarantee the information at non-Governmental links:

<http://www.irs.gov/pub/irs-pdf/p561.pdf>

Household goods valuation:

<http://www.goodwillpromo.org/>

<http://www.satruck.com/ValueGuide.asp>

Car/Boat Valuation:

<http://www.nadaguides.com/home.aspx?l=1&w=28&p=0&f=5000&aid=80698&iid=58778&nozip=1> [NADA Guide]

<http://www.kbb.com/> [Kelly Blue Book]

<http://www.edmunds.com/used/index.html> [Edmunds]