

A PRIMER ON CHARITABLE DONATIONS

Americans have long responded generously to people in need. Witness the torrent of checks to the victims of recent hurricanes and earthquakes. But while such acts remind us of the generosity of Americans, they also serve as reminders about the financial side of charity, including:

The proliferation of charitable organizations formed to complement the American Red Cross, Salvation Army and other charities in receiving public contributions and in distributing aid to those who find themselves in need of food, clothing, shelter and medical care.

The urgent need to be cautious about which organization to give money to in case you know nothing about the one that is soliciting your contribution. If you don't have time to check it out, it would be better to stick with organizations with which you are familiar.

The notion that, if you itemize deductions on your income tax returns, you can make tax-deductible charitable contributions that could reduce your taxable 2005 income and, thus, what you will owe on April 15. The Katrina Emergency Tax Relief Act (KETRA) allows unlimited gifts to charity up to a donor's total income until the end of 2005—and for individuals the gifts do not have to be for hurricane relief efforts.

The emergence of new vehicles which may make it easier for large donors to make contributions in accordance with Internal Revenue Service regulations.

It may be useful, therefore—while hurricane, forest fire, mudslide and earthquake victims are on your TV screen—to review a few pointers about today's individual philanthropy as seen through the eyes of the IRS.

While the IRS does not address all acts of generosity—such as gifts made directly to individuals—it does address the majority of appeals for help which you are likely to receive or hear about from organizations to which contributions *do* qualify.

You get the idea in a definition on the cover page of the IRS' essential 19-page Publication 526, *Charitable Contributions*: “A **charitable contribution** is a donation or gift to, or for the use of, a **qualified organization**. It is voluntary and is made without getting, or expecting to get, anything of equal value.” That publication, which can be found at the IRS' Web site (www.irs.gov), also notes that such organizations “include nonprofit groups that are religious, charitable, educational, scientific or literary in purpose, or that work to prevent cruelty to children or animals.”

Descriptions of such groups as well as examples of both organizations that are not qualified (such as labor unions and chambers of commerce) and contributions from which you may benefit (such as country club dues and university tuition) are in the IRS' booklet. Be sure to ask whether the entity to which you are making a charitable contribution is a qualified organization or not.

Given the consequences of hurricanes Katrina and Rita, one IRS reminder is especially timely: “You can deduct contributions earmarked for flood relief, hurricane relief, or other disaster relief to a qualified organization (but not) contributions earmarked for... a particular individual or family.”

If you have given used clothing or household goods to flood victims or other needy—or plan to by December 31—you may claim deductions if they went to qualified organizations.

Knowing how much you may deduct per item is tricky. The IRS requires that deductions be at fair market value, for which it gives a textbook definition—“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”—which is easier to articulate than to implement. (Publication 526 offers a few helpful suggestions.)

To ensure compliance, the IRS warns that donors may be liable for penalties if they overstate the value of donated property.

Knowing how much you may deduct in total can also be tricky unless your contributions constitute no more than 20 percent of your adjusted gross income. If they exceed 20 percent, you need to wrestle with an IRS worksheet to determine your limit.

If you know that you will be able to contribute a five-figure total, which you are not yet prepared to allocate among qualified organizations, you may wish to consider a donor-advised fund. Donor-advised funds offer you immediate tax benefits and flexibility in the timing of your actual distributions to charities. You open an account with an irrevocable contribution of, say, \$10,000 in cash, marketable securities, and/or mutual fund shares; tell the firm how the money should be invested among several investment pools for growth and/or income, and report your contribution on your 2005 tax return. When ready this year or next, you tell the donor-advised fund firm which organizations should get how much and the firm handles the grants for you.

If your contributions are on a very large scale and you can absorb the costs of its organization and operations, you could establish a tax-exempt private foundation for your charitable contributions under Section 501(c)(3) of the Internal Revenue Code, which you would fund with deductible contributions.

No matter your decision, it pays to do a little research beforehand to make sure that your contribution goes as far as it can to help those it's intended for.

November 2005— This column is produced by the Financial Planning Association of Southern Wisconsin. We can be a continued resource for your personal finance coverage. If you use this column in whole or part, please credit the chapter or one of our CERTIFIED FINANCIAL PLANNER™ members.

CFP®, CERTIFIED FINANCIAL PLANNER™ and the federally registered CFP (with flame logo) are certification marks owned by Certified Financial Planner Board of Standards, Inc. These marks are awarded to individuals who successfully complete CFP Board's initial and ongoing certification requirements.