WORTH

Your Philanthropic Contributions Can Provide a Nice Return, to Both Your Favorite Charity and Your Own Finances at Tax Time

Giving + Getting Back

Story by S. Kay Bell

SINCE EVERYTHING IS BIGGER IN TEXAS, it's no surprise that we open our hearts and wallets very wide when folks are in trouble.

Texas has more than 50,000 charitable organizations overseen by the state. They range from branches of well-known national philanthropic groups to organizations created to meet more local needs. On top of that, add the benevolent efforts of thousands of churches and the specialty groups created to fill the needs of very specific charitable circumstances. But before you whip out your checkbook to donate to one or more of these groups, you need to take some specific steps to ensure that you do well financially when helping those who do good deeds.

Finding Your Favorite Charity

Each of us has a cause that's near to our heart. Usually it's because of a personal connection: A family member is dealing with an illness (American Cancer Society), we fondly remember our school days (a university alumni association) or we are very connected to our pets (The Humane Society of the United States).

The key is to make sure that whatever group you choose to support, it's legitimate. Sadly, con artists too often use emotional appeals to get our money, some even using contributor data as an identity theft inroad. Before you give to any group, make sure it is a properly established charitable organization. You also want to thoroughly check out how the group is run, much like you would examine a company before buying its stock.

Legitimate groups will be more than happy to provide you with documentation, both as to tax status as well as operational structure. You also can check with the Attorney General's office, IRS Publication 78 (which is searchable online at the agency's website) or the private watchdog Guidestar.org. Keep in mind, though, that a group doesn't have to be approved by the IRS to make it worthy of your support. An IRS OK just means you get some tax benefit from your gift (more on this shortly). Your college alumni organization, for example, might not be a nonprofit under federal tax rules. However, it still might be a group you want to support with a financial gift.

Know the Donation Tax Rules

Few of us give to charity simply to claim a tax deduction. But it is a nice benefit, as long as you follow the rules.

The first thing to keep in mind is that to claim a charitable tax deduction, you must itemize. If you take the standard deduction, your contribution will still help the charity but not your tax bill. That means your itemized expenses will need to be more than $5,350 if you're a single taxpayer or greater than $10,700 if you file a joint return. Since Texas has no state income tax to deduct, some taxpayers find that they do not have enough other deductions to exceed the standard amount. In this case, the charitable gifts offer no tax benefit.

The gift also must go to an IRS-qualified entity, which you can check out using the references noted earlier. That means it has filed with the tax agency and meets continuing eli-

See GIVING + GETTING BACK on page 81

Charitable Considerations

Here's a very brief alphabetical list of some Austin charitable organizations that would welcome your financial or volunteer help:

American Heart Association
www.americanheart.org
512.433.4000

Caritas of Austin
www.caritasofaustin.org
512.646.1265

Girl Scouts Lone Star Council
www.girlscouts-lonestar.org
512.453.7391

Goodwill
www.austingoodwill.org
512.637.7100

Lady Bird Johnson Wildflower Center
www.wildflower.org
512.292.4100

Lance Armstrong Foundation
www.livestrong.org
512.236.8820

Salvation Army
www.salvationarmyaustin.org
512.447.2272

Susan G. Komen Breast Cancer Foundation
www.komen.org
512.473.0900

United Way Capital Area
www.unitedwaycapitalarea.org
512.472.6267

Wonders & Worries
www.wondersandworries.org
512.329.5757

GIVING + GETTING BACK from page 78

gibility guidelines. Some collections, such as those gathered by a neighborhood group to help a family pay medical bills, might be well-intentioned and provide much-needed assistance. But these solicitations are not tax qualified. The IRS specifically says you cannot claim a deduction for a gift earmarked for an individual's use. You can, however, get a tax break for gifts other than cash (and in IRS terminology, cash includes checks and credit card donations). In most cases, goods you give to a qualified charity are tax deductible. So are the costs of incidentals, such as supplies, that you buy for the organization. And if you use your auto to help out the charity, such as delivering meals to the homebound, be sure to tally the miles and write them off at 14 cents per mile.

You also could get a nice tax break by donating appreciated property, such as stock you've held for more than a year but which no longer fits your portfolio needs. By doing so, you can rebalance your holdings while simultaneously helping the charity and getting a tax deduction. If you opted to simply sell the stock, even if you then gave the money to the charity, you still would be liable for the 15% capital gains tax on it. But if you give the stock directly to the qualified organization, you can claim the full asset price at the time of the donation and avoid the capital gains bill.

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Special Donation Situations

In some contribution cases, you need to pay attention to special tax rules.

Under pension legislation enacted earlier this year, the IRS has placed restrictions on the donation of clothing and household goods (appliances, furniture and linens) that can be claimed as deductions. The items must be in "good" or better shape (don't be surprised to see the IRS come up with a more specific definition in tax return material) or no deduction is allowed. This serves a dual purpose. First, it should prevent people from using charities as thinly-veiled dumping grounds for items that really should be thrown away. Secondly, the IRS hopes that when taxpayers know that tax examiners will be looking closely at this area, fewer filers will egregiously inflate the value of the items they donated.

The new donated goods guidelines are similar to a rule the IRS instituted several years ago in connection with vehicle donations. Because some taxpayers got greedy when it came to claiming vehicle donations – some government estimates put the U.S. Treasury loss in 2000 alone at $652 million – vehicle donation deductions were tightened. Now, instead of the donor simply writing down the vehicle's value as the deduction, the donor must find out the charity's plans for the auto. If the donated auto was valued at $500 or more and is subsequently sold at auction, then the taxpayer can claim only the amount the charity got for the vehicle. If, however, the charity uses the auto to conduct its services for a while before auctioning it, the donor can claim the vehicle's actual value even if it subsequently was sold for less.

Finally, while Uncle Sam usually rewards donors, there are limits. In most cases, you cannot contribute more than 50% of your adjusted gross income. That means if you make $50,000 then you can deduct gifts totaling as much as $25,000. Some higher-income donors who usually are the ones able to make such substantial gifts also could find that their total deductions (charitable and all other categories) are reduced because of their income. If you are in a position to donate large amounts, your best move is to meet with your tax and financial planner to structure your gifts so that they best benefit your chosen charity and your personal situation. ★