



Deducting Charitable Contributions in 2007

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Are you one of the many taxpayers who claim a tax deduction for weekly cash contributions into your church collection plate? Starting in 2007 you will not be allowed your tax deduction unless you have a cancelled check or get a receipt from the charity.

Rules have changed for donations of cash, household goods, and appreciated property. Moreover, new penalties have been enacted for people who inflate the value of their gifts in kind. If you inflated the value of goods by over 50% you will be hit with a penalty of 20%. If your claimed valuation is over 100% of its real value, the IRS will increase the penalty to 40%.

New Rules for Cash Donations

You will need a bank record (cancelled check or credit card statement) or a receipt from the charity for all cash contributions under \$250 in order to get a tax deduction. For cash contributions of \$250 or more a bank record is not enough. To take a deduction in this case you need a receipt from the charity and a statement indicating if anything of value was given in return. For example, if you received a book worth \$40 for making a \$300 contribution, then you can only deduct \$260 and the receipt from the charity must indicate this fact.

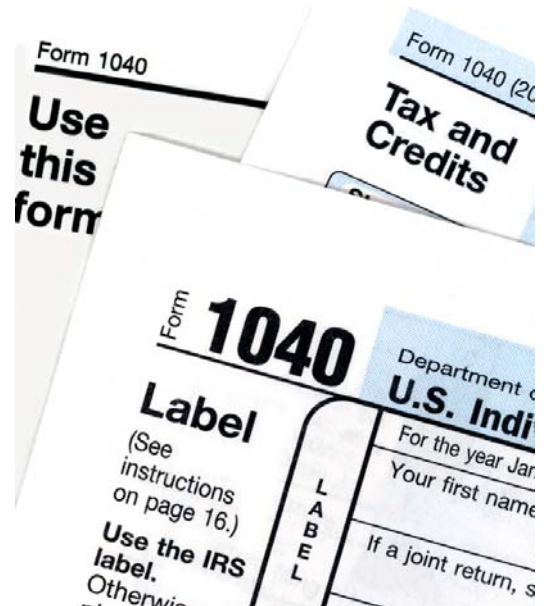
In the past, if you give a charity a \$350 donation by check and the charity failed to give you a receipt you may have claimed a deduction for \$249 (the highest amount where a cancelled check would be enough documentation). Under the new laws, you would lose the entire deduction. Thus, make sure you get a receipt from the charity for all gifts of \$250 or more.

Household Goods

The new rules also affect the bags of clothing and gifts of toys and sporting goods that people often give to Goodwill

or the Salvation Army. Effective for Aug 17, 2006, all donated household goods generally must be in good condition or better to get a tax deduction (you may want to take photographs to demonstrate condition). However, goods with a value of over \$500 may be in less than good condition if you also have an appraisal before you file your tax return. Any appraiser you rely on must be "qualified" under new IRS standards and you must attach his qualifications to your appraisal.

Congress has also given the IRS authority to deny deductions of goods even though they are in good condition if the items are of "minimal monetary value" such as socks or underwear. It is best to list the exact items you are donating rather than just list "used clothing" on the receipt.



Appreciated Personal Property

The basic limitations on gifts of appreciated tangible personal property have not changed: you may take a deduction for the lesser of your cost or the current fair market value, unless the charity keeps and uses the item for its charitable work. For example, if you donate your favorite painting to a museum that cost you \$1,000 but is worth \$10,000, you can deduct the full \$10,000 if the museum keeps the painting and displays it (provided you have an appraisal). On the other hand, if the museum sells your painting then you get only a \$1,000 deduction.

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The new rules require the charity to keep track of your painting for 3 years (for all items worth \$5,000 or more) and must notify the IRS and donor if it is sold and the proceeds received. If, for example you had taken the \$10,000 deduction but your painting was sold for \$8,000 in year 3, you must include the difference between the proceeds and your cost as income in the year of sale or \$7,000. There is one exception to this rule: if the charity certifies to the IRS that it had no intention of selling the painting at the time it received it, but unforeseen events caused them to sell it, then you get to keep the \$10,000 deduction.

Let a Vantage Professional help you take advantage of the new tax laws for charitable contributions.

If you are donating tangible personal property that a charity will use rather than sell, we recommend you get a letter from the charity stating they have no intention of selling the item.

Appreciated Stock

There has been no change in the rules of gifting appreciated stock in publicly traded companies. Provided the stock has been held for at least a year, the donor gets a deduction equal to the fair market value without having to pay any capital gains tax. We find that our clients are often unaware of this very effective tax strategy. Instead of giving a charity cash, give appreciated stock equal to the same value and escape the tax on the gain.

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