

The following is for use by assistive readers and users who prefer a text version of this course.

Can I Deduct My Charitable Contributions Course

Page 1 – Welcome

Leagle: Welcome to the Can I Deduct my Charitable Contributions Course. This course is presented by the Tax Exempt & Government Entities division's Exempt Organizations office.

Page 2 – Introduction

Leagle: Hi. I'm Leagle and I'll guide you through the courses here at StayExempt.

Before you start, this course includes questions and activities to test your knowledge. No scores are kept and are for your reference only. They're designed to help you understand the material better.

Page 3 – Objectives

- List the types of contributions you can deduct.
- Estimate how much of your contributions you can deduct.
- Choose which records to keep depending on the type of contribution you have made.
- Describe how to report deductions and explain the limits on total deduction amounts.

Leagle: In this course we'll talk about charitable contributions that you can make. In this course you will learn how to analyze your charitable contributions and calculate how much can be deducted.

First, you'll learn about the types of deductible contributions. Then you'll learn how to estimate the deductible portion of that contribution. Next, you will choose which records to keep based on the contributions you've made. Finally, you will learn how to report deductions and what the limits are on how much you can deduct.

First, let's learn the basics about the types of contributions that are deductible.

Page 4 – What is a Charitable Contribution?

Vernon: Hi, I'm Vernon. I volunteer with my local PTO and occasionally contribute to charitable organizations.

Richard: Hi, I'm Richard and I have been passionate about helping animals since I was a child. I want to be able to donate my time and money to charities, but I want to make sure that I do it right.

Leagle: Great, I'd be happy to help you both with that. Let's start with a basic definition of a charitable contribution. A charitable contribution is a donation or gift to or for the use of a qualified organization. It is voluntary and it is made without getting or expecting to get substantial benefits in return.

Next let's learn about qualified organizations.

Page 5 – What Do You Mean by Qualified?

Richard: What do you mean by qualified?

Leagle: That's a good question. Not every nonprofit tax-exempt organization is qualified to receive tax-deductible contributions. Qualified organizations include nonprofit groups whose purpose is religious, charitable, educational, scientific, literary or preventing cruelty to children or animals.

Vernon: Those are the exempt purposes for 501(c)(3) organizations.

Leagle: That's right. You can learn more about exempt purposes from the IRS web site or the tax-exempt status overview course. We don't need that kind of detail here. Let's focus on how to find out if an organization is a tax-exempt organization.

Page 6 – How Do I Determine Whether an Organization is Qualified?

Vernon: I make donations to my local food bank, but I don't know if it is a "qualified" organization. I think it's nonprofit and it seems like the work it does is charitable. How can I find out if it is qualified?

Leagle: Excellent question, Vernon. You can ask the organization whether it is a qualified organization and it should be able to tell you. You can search for charities on the IRS.gov website. Or, you can check IRS Publication 78; it lists most qualified organizations. An organization is listed in Publication 78 because it applied for and was granted Federal tax exemption. But keep in mind, churches, religious organizations and governments do not have to apply for tax exemption so you might not find them in Publication 78. Even so, contributions to them would be deductible.

Next, let's talk about what kinds of contributions are deductible.

Page 7 – Deductible Contributions

Richard: Are all the donations you make to a qualified organization tax deductible?

Leagle: Generally, you can deduct contributions of money or property that you donate to a qualified organization. You can also deduct certain out-of-pocket expenses you incur when you provide services to a qualified organization. The expenses must:

- Result from services you provided
- Be directly connected with the services
- Not be personal, living, or family expenses
- Be unreimbursed

Next, let's talk about what you can only partially deduct.

Page 8 – Partially Deductible Contributions

Vernon: I volunteer 10 to 15 hours a week at a qualified charitable organization. Can I deduct the cost of my time?

Leagle: No Vernon, you cannot deduct the value of your time or services. However, as I mentioned earlier, you can deduct your out-of-pocket expenses such as the cost of gas directly related to getting to and from the place where you volunteer. If you don't want to figure your actual costs, you can use the standard mileage rate for charitable contributions.

Next, let's look at contributions you cannot deduct at all.

Page 9 – Non-deductible Contributions

Richard: Are there any other contributions that we cannot deduct?

Leagle: Well, you can't deduct money or property you give to an organization that is not qualified to receive tax-deductible contributions such as a civic league, social or sports club, labor union, chamber of commerce, political group or candidate for public office.

You also can't deduct the cost of raffle, bingo, or lottery tickets, even if you don't win. And, as I just explained to Vernon, you can't deduct the value of your time or services.

Next, let's review what you've learned so far.

Page 10 – Recap

Leagle: So let's go over what you've learned so far. In this section you learned that to be deductible a charitable contribution must:

- Be voluntary
- Be made without getting or expecting to get benefits in return
- Be made to a qualified organization
- Have out of pocket expenses associated with volunteering for a qualified organization

Next, try an exercise before moving on to the next section.

Page 11 – Knowledge Check

Leagle: Let's look at an example. A child attends a parochial school. The family pays tuition. Can they deduct the tuition they pay? Pause your system to think about it.

If you said no, you're right. You can't deduct tuition costs because they don't meet the definition of a charitable contribution.

- Not voluntary
- You get something in return equal to the money you gave up

Page 12 – Progress Check

Leagle: Great job! You have completed the deductible contribution types section of this course. Next, we will learn more about how estimate the amount you can deduct.

Page 13 – How Much Do You Deduct?

Richard: Now that I have a much better understanding of what is deductible, how much of my contribution can I deduct? Can I always deduct the full amount?

Leagle: Generally, you can deduct the full amount of any money you contribute to a qualified organization unless you receive a benefit as a result of making a contribution. In that case, you can only deduct the amount of your contribution that is more than the value of the benefit you receive, provided you intended to make a charitable contribution of the excess.

For example, if you pay \$65 for a ticket to a dinner dance at a church and the event has a fair market value of \$25, the amount you can deduct as a charitable contribution is \$40, the cost of the ticket (\$65) less the value of the dinner dance (\$25).

Page 14 – Deduction Amount Scenario

Vernon: Leagle, the charity I work for has a fund-raising auction every year. Last year I had the winning bid of \$600 for a week's stay at a beach house. Can I deduct the full amount?

Leagle: Unfortunately, no, the amount you can deduct will depend on the fair rental value of the beach house. If it would cost \$1,000 to rent the house for that week, you would not have a deductible charitable contribution because the amount you paid was less than the fair rental value ($\$600 - \$1,000 = 0$). If the fair rental value is \$500, you would have a deductible charitable contribution of \$100 ($\$600 - \$500 = \100), provided you intended to make a charitable contribution of the excess.

Next, let's talk about determining the fair market value of any benefits received from a charity.

Page 15 – Determining Fair Market Value

Vernon: How would I know the fair market value of any goods or services I receive in return for my contribution?

Leagle: The organization has an obligation to tell you. If you make a payment of \$75 or more that is partly a contribution and partly for goods and services, charities (and organizations listed in Pub 78) must provide you with a written disclosure statement. The statement must state that your deductible contribution is limited to the excess money (or the fair market value of property) you contributed over the value of the goods or services provided by the organization. It must also provide a good-faith estimate of the fair market value of the goods or services. An organization must furnish the disclosure statement either when it solicits the contribution or when it receives the contribution.

Next, let's look at property donations.

Page 16 – Contributions of Property – General Rule

Richard: I frequently donate property, like used clothing or household goods. How much can I deduct for that?

Leagle: The general rule is you can deduct the fair market value of the property at the time of the contribution. However, there are special rules for different types of donated property. Because our time is limited, we'll just touch on the rules for the two most common types of property donations, clothing or household items and vehicles. First, let's look at the rules for clothing and household items.

Page 17 – Clothing and Household Items

Richard: So how much are my clothes and household items worth?

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

If you contribute clothing or household items to a qualified organization, the amount you can deduct is generally the fair market value of the property at the time of the contribution. This is determined by how much the organization can sell the item for, not the original price of the item.

The fair market value of used clothing is usually much lower than what you paid for the item. There are no fixed formulas or methods for finding the value of items of clothing. A good method for determining the value of used clothing is to see what buyers actually pay in used clothing stores, such as consignment or thrift shops.

For more details on how to determine fair market value, check out Publication 561.

Next, let's take a closer look at household items.

Page 18 – Household Items

Richard: What about household items?

Leagle: First, let's talk about which items you can donate, and which you can't. Household items include furniture, furnishings, electronics, appliances, linens and other similar items.

Household items do not include food, paintings, antiques and other art objects, jewelry and gems and collections.

Richard: So how do I determine the value of these items?

Leagle: Furniture value is also difficult to determine. An item may have little or no market value because it is in a worn condition, out of style, or no longer useful. Therefore, formulas (such as using a percentage of the cost to buy a new replacement item) are not acceptable in determining value. You should have support for your valuation, such as photographs, canceled checks, receipts from your purchase of the items, or other evidence.

Special rules apply to these items, and we don't have time to cover all of them today. For information on determining the value of items such as antiques or jewelry, see Publication 561, *Determining the Value of Donated Property*.

Next let's talk about vehicle donations.

Page 19 – Vehicle Donations

Richard: What about vehicle donations? Can I just claim the fair market value of my car?

Leagle: Not always. The rules for vehicle donations, which include cars, boats and airplanes, are different. To calculate the amount you can deduct when you donate a vehicle, you'll need to know what the organization intends to do with the vehicle. How much you can deduct will depend on whether the organization intends to sell the vehicle, use the vehicle in its charitable work, make a major improvement to the vehicle, or give the vehicle away or sell it for well below the fair market value to a needy individual.

If you're contemplating donating a vehicle to a charitable organization, I highly recommend that you first review Publication 4303, *A Donor's Guide to Vehicle Donations*.

Let's figure out how much you will be able to deduct based on what the organization does with your donation.

Page 20 – Vehicle Donations – Deductible Amount

Richard: Okay, so how do I calculate the deductible amount?

Leagle: Well, if your contribution is worth more than \$500 and the organization sells the vehicle, generally your deduction is limited to the smaller of the gross proceeds from the sale of the vehicle, or the vehicle's fair market value on the date of the contribution. You should consult Publications 561 and 4303 for more information on determining the fair market value.

Richard: What if the organization doesn't sell the vehicle?

Leagle: Generally, you can deduct the vehicle's fair market value if the organization intends to make a significant intervening use of or material improvement to the vehicle before transferring it. You can also deduct the fair market value if the organization gives the vehicle to or sells it for a price well below fair market value to a needy individual to further the organization's charitable purpose.

In each of these cases, you'll need some documentation from the organization. Let's talk about that in the next section. First, let's review what you've learned so far.

Page 21 – Recap

Leagle: So let's go over what you've learned so far:

- You learned that depending on the type of contribution, you can deduct different amounts.
- First, for cash donations, you can deduct the full amount unless you receive a benefit for your donation. Then you can deduct the difference between the total contribution and the fair market value of that benefit.
- For clothing and household goods, you can deduct the fair market value based on the sale of similar used goods.
- For vehicles, you can deduct either the gross proceeds from the sale of the vehicle or the vehicle's fair market value, whichever is lesser.
- Finally, if the organization improves or uses your vehicle then you can deduct the fair market value.

Next, try an exercise before moving on to the next section.

Page 22 – Knowledge Check

Leagle: Let's try this exercise. Richard just donated a box of books he had kept in the attic for years. How much can he deduct for this donation? Pause your system to think of the answer.

- A) The original price of the books from the covers of each.
- B) Half of the original price of the books.
- C) The total online price for those each book used
- D) A fraction of the original price, based on used book store sales in the area

If you chose D, you're correct. The price for used books online is generally inflated. You are better off using local used book stores as a measure of what the books might be worth.

Page 23 – Progress Check

Leagle: Great job! You have completed the calculating deductions section of this course. Next, we will learn about documenting and recordkeeping for your charitable donations.

Page 24 – Vehicle Donations – Documentation

Vernon: I've been thinking of donating my wife's old car. How in the world will I know what the charity ends up doing with her car?

Leagle: Lucky for you Vernon, the IRS requires that the organization provide you with a written acknowledgment for a vehicle contribution deduction of more than \$500. What that acknowledgment must contain will depend on what the organization did with the vehicle.

The organization must provide you with Form 1098-C, *Contributions of Motor Vehicles, Boats, and Airplanes* (or other statement containing the same information as Form 1098-C). You must attach a copy of Form 1098-C (or other statement) to your tax return.

Next, let's talk about what happens if the organization sells your car.

Page 25 – Documentation – In Case of Sale

Vernon: Okay, so what do they give me if they sell the car?

Leagle: Charitable organizations typically sell the vehicles that are donated to them.

If the organization sold the vehicle, the statement must certify the transaction took place between unrelated parties, also known as an arm's-length transaction.

It must also include the date the vehicle was sold, the gross proceeds received from the sale and a statement that your deduction may not exceed the gross proceeds from the sale.

Next, let's look at the requirements if the organization gifts the car.

Page 26 – Documentation – In Case of Gift

Vernon: Okay, so what will I get if they make the car a gift?

Leagle: If the organization intends to give or sell the vehicle to a needy individual at a price significantly below fair market value (as determined by facts and circumstances) **and** the gift or sale directly furthers the organization's charitable purpose of relieving the poor and distressed or the underprivileged who are in need of a means of transportation, then the acknowledgment must certify these facts.

Finally, let's look at what you will get if the organization improves the car.

Page 27 – Documentation – In Case of Improvement

Richard: I have a car but it's really broken down. I heard you can still donate cars like that. Would I still be able to donate it?

Leagle: Yes, you can still donate it.

If the organization intends to use or materially improve the vehicle, the acknowledgment must certify that it intends to make a significant intervening use of the vehicle or a material improvement to the vehicle, include a detailed description of the intended use or material improvement, the duration of that use, and a certification that the vehicle will not be sold before completion of the use or improvement.

Now that you understand what documentation you will get from the charities, let's talk about what other records you might need to keep.

Page 28 – Recordkeeping

Vernon: Leagle, I know I should keep any documentation that the charity gives me. Do I need to keep anything else?

Leagle: Well, Vernon, the kinds of records you must keep will depend on the amount of the contribution and whether it's a cash contribution, noncash contribution or out-of-pocket expense for donated services.

Let's start with cash contributions.

Page 29 – Recordkeeping for Cash Contributions

Vernon: You mentioned cash contributions. What records do I need to keep for that?

Leagle: To deduct a cash contribution, regardless of the amount, you must have a bank record (such as a canceled check) or a written communication from the organization (such as a receipt or letter) showing the name of the organization, the date of the contribution and the amount of the contribution. Cash contributions include those paid by cash, check, electronic funds transfer, credit card or payroll deduction. That way if you lose the receipt from the organization, you can still use your bank statement.

Next, let's look at the requirements for payroll deductions.

Page 30 – Recordkeeping for Payroll Deductions

Richard: I make contributions by payroll deduction. What type of records do I need to keep for that?

Leagle: For payroll deductions you'll need a pay stub, Form W-2 or other employer-furnished document that shows the amount withheld and paid to the charitable organization, along with a pledge card prepared by or at the direction of the charitable organization.

Next, let's talk about large donations.

Page 31 – Recordkeeping for Large Donations

Vernon: How much is a large donation?

Leagle: The threshold for large donations is pretty low, just \$250. If you make a contribution of \$250 or more to an organization, you can only claim a deduction if you have a written acknowledgment from the organization.

This acknowledgement must include the amount of cash you contributed, whether you received any goods or services in return for your contribution, along with a description and good faith estimate of the value of the goods or services provided or if applicable, a statement that the only benefit you received was an intangible religious benefit.

Next, let's talk about small donations you make on a regular basis.

Page 32 – Regular Donations

Vernon: I write a \$25 check to my synagogue every Saturday. Do I have to get a written acknowledgment from them as well?

Leagle: No. The written acknowledgment is only required for single contributions of \$250 or more. You do not combine separate contributions.

Similarly, if contributions are made by payroll deduction, the deduction from each paycheck is treated as a separate contribution.

Don't forget, as I previously stated you cannot deduct a cash contribution of any amount unless you keep a bank record or have a written statement from the organization.

Next, let's talk about noncash donations.

Page 33 – Recordkeeping – Noncash

Richard: What about noncash donations. What records do I need for those?

Leagle: The records you'll need to keep for noncash contributions are more involved and depend on the amount of your deduction. There are different rules if your deduction is:

- Less than \$250, review this publication:
http://www.irs.gov/publications/p526/ar02.html#en_US_2011_publink1000229841
- At least \$250 but not more than \$500, review this publication:
http://www.irs.gov/publications/p526/ar02.html#en_US_2011_publink1000229843

- Over \$500 but not more than \$5,000, review this publication:
http://www.irs.gov/publications/p526/ar02.html#en_US_2011_publink1000229844
- Over \$5,000, review this publication:
http://www.irs.gov/publications/p526/ar02.html#en_US_2011_publink1000229845

For a deduction that is over \$5,000 for one item or a group of similar items you'll generally need a written appraisal from a qualified appraiser.

Because we don't have time to go into all of these situations, I suggest that you review Publication 526, *Charitable Contributions*, which has an in depth discussion of records to keep for noncash contributions.

Next, let's review what you've learned so far.

Page 34 – Recap

Leagle: First, if the vehicle contribution deduction is more than \$500, the organization must provide you with a written acknowledgement. Each acknowledgement will have special documentation requirements based on whether the organization will sell your vehicle, improve your vehicle or use the vehicle to further its charitable purpose.

For cash donations, you only need bank records or a statement from the organization documenting the amount of your donation.

For payroll deductions, you need documentation from your employer and the pledge card from the organization.

Large donations require documentation special documentation as well.

Regular donations do not need additional documentation if each individual donation is not large.

Finally, noncash donations have special rules available on the IRS.gov site.

Next, let's test your knowledge.

Page 35 – Knowledge Check

Leagle: Pause your system to think about the answer to this question: Richard is participated in an auction and one a dream vacation to the Caribbean. His winning bid was for \$400. Which document does he **not** need for the IRS?

- The amount of cash he contributed
- His Passport
- A statement that he won a trip for his donation.
- A description and estimate of the value of the trip.

If you answered B, you're correct. The only documentation he doesn't need is his passport, though he will probably need that for the trip itself.

Page 36 – Progress Check

Leagle: Great job! You have the recordkeeping section of the course.

Page 37 – Where to Deduct

Vernon: Leagle, I'm pretty clear on what I can deduct, how much I can deduct, and what records I need to keep. But what form do I use to claim my deduction? Now that I'm retired and my house is paid for I'll be filing the short form (Form 1040A). Is there a line on that form for contributions or do I attach a separate schedule?

Leagle: Unfortunately, to deduct a charitable contribution, you must file Form 1040 and itemize your deductions on Schedule A. Both cash and noncash contributions are entered on Schedule A. If your total deduction for all noncash contributions for the year is over \$500, you also must complete Form 8283, *Noncash Charitable Contributions*, and attach it to your Form 1040.

Next, let's talk about deduction limits.

Page 38 – Deduction Limits

Richard: When I was calculating my deductions last year, I seemed to remember something about there being a limit to how much you can deduct. Is that right?

Leagle: Yes, Richard, it is. There can be limits on the amount of your charitable contribution deduction, but only if your total contributions for the year are more than 20% of your adjusted gross income. For most of us these limits will never apply.

The limit on your deduction (50%, 30%, or 20%) will depend on the type of property you give, and the type of organization you give it to. A different limit applies to certain qualified conservation contributions.

For example, if your adjusted gross income is \$100,000, your contribution deduction would have to be over \$20,000 before the limits might apply.

The computation of this figure is too complicated to explain here. If your contribution deduction is more than 20% of your adjusted gross income, Publication 526, *Charitable Contributions*, has a good explanation of the limits and a worksheet you can use to figure the deduction limits.

Page 39 – Recap

Leagle: So let's go over what you've learned so far.

First of all, you must file Form 1040 itemized to deduct charitable contributions and use Schedule A to enter the contributions. Total contributions for the year of over 20% over your gross income may be limited. There's a good explanation of this.

Next, let's test your knowledge.

Page 40 – Knowledge Check

Leagle: Pause your system to think about the answer to this question: Which household item is not included in the list of deductible contributions?

- A. Furniture
- B. Linens
- C. Paintings
- D. Electronics

If you said C, you're right. Paintings are not in the list of deductible items.

Page 41 – Progress Check

Leagle: Great job! You have learned how to report deductions and what the limits on deductions are.

Page 42 – Additional Resources

Leagle: There were a lot of resources in this course, so feel free to go back through it. Here are some links to the major resources in this course.

- 526, *Charitable Contributions* at <http://www.irs.gov/publications/p526/ar02.html>
- 561, *Determining the Value of Donated Property* at <http://www.irs.gov/publications/p561/index.html>
- 1771, *Charitable Contribution Substantiation and Disclosure Requirements* at <http://www.irs.gov/pub/irs-pdf/p1771.pdf>
- 4303, *A Donor's Guide to Vehicle Donations* at <http://www.irs.gov/pub/irs-pdf/p4303.pdf>

Page 43 – Conclusion

Leagle: On behalf of everyone in the IRS Exempt Organizations division, thank you for taking the *Can I Deduct My Contributions Course*.

Before you leave, please take a couple of minutes to complete this course's evaluation. It doesn't ask for any personal information. The information you provide will ensure that this and other courses at StayExempt provide a valuable learning experience for future participants.

Also, if you have other feedback for the Exempt Organizations team, feel free to use this button to send us an email.