FPA FINANCIAL PLANNING PERSPECTIVES

Before the Holidays, Get Those Charitable Donations Lined Up

There's a special sinking feeling as you approach Dec. 31 and realize you've done no tax planning whatsoever. That includes big issues like end-of-the-year investment decisions, and the smaller ones – like that stuff you no longer use piling up in the basement.

Charitable giving is an important part of tax planning at yearend, so let's look at the cash and noncash aspects of giving. It makes sense to contact a tax expert or financial planner to talk about what giving makes sense for you:

You have to itemize: Only individual taxpayers who itemize their deductions on Schedule A can claim a deduction for charitable contributions. This deduction is not available to people who choose the standard deduction, including anyone who files a short form (1040A or 1040EZ).

Get out the checkbook: Uncle Sam likes a record. To deduct any charitable donation of money, a taxpayer must have a bank record or a written communication from the charity showing the name of the charity and the date and amount of the contribution – and it definitely helps to have both. Bank records mean canceled checks, bank or credit union statements and credit card statements. Bank or credit union statements should show the name of the charity and the date and amount paid. Credit card statements should show the name of the charity and the transaction posting date. For payroll deductions, the taxpayer should retain a pay stub, Form W-2 wage statement or other document furnished by the employer showing the total amount withheld for charity, along with the pledge card showing the name of the charity. If you remember the IRS being satisfied with personal bank registers or scribbled notes to document the donation, they're not anymore.

There are charities, and then there are charities: You need to make sure that organizations are qualified to make tax-deductible contributions to. IRS Publication 78, available online and at many public libraries, lists most organizations that are qualified to receive deductible contributions, but there's an online version too. Just go to IRS.gov and type in "Search for Charities." One key exception -- it's important to note that churches, synagogues, temples, mosques and government agencies are eligible to receive deductible donations, even though they often are not listed in Publication 78.

Giving away property: If you give away property, including clothing and household items, get a receipt that includes a description of the donated property. If a donation is left at a charity's unattended drop site, keep a written record of the donation that includes a description of the property and its condition. For any kind of vehicle, boat or airplane, the deduction is now limited to the gross proceeds from its sale. This rule applies if the claimed value of the vehicle is more than $500. Form 1098-C, or a similar statement, must be provided to the donor by the organization and attached to the donor's tax return.

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You can't deduct junk: Under a provision of the 2006 Pension Protection Act, contributions of physical items must be in good used condition or better to qualify for a deduction. That means that you can't deduct ripped or discolored clothing or appliances that don't work. If you donate noncash property that is valued at more than $500, you need to report to the IRS how and when you acquired the property and your cost basis. You must file Form 8283, Noncash Charitable Contributions, for all donations of property valued at more than $500.

Use that digital camera: If you're ever audited, it helps to have photographs or video of these items, and obviously, demand a detailed receipt.

Learn rules about giving away appreciated securities: This is where a financial planner or tax expert would come in handy. When you donate stocks or mutual fund shares you have held for more than one year, generally you may deduct the stocks' current fair market value. Additionally, you avoid paying capital gains taxes on the appreciated value.

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