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# Year-End Tips for Charitable Contributions

**Article Highlights:**

- Watch Out for Charity Scams
- Tax Exempt Organization Search Tool
- Tax Benefits of Charitable Contributions
- Bunching Deductions
- Qualified Charitable Distributions
- Substantiation

As the end of the year and the holiday season approach, we will all see an uptick in the number of charitable solicitations arriving in our mailboxes and by email. Since some charities sell their contributor lists to other charities, frequent contributors may find themselves besieged by requests from all sorts of charities with which they are not familiar.

*Watch Out for Charity Scams* – You need to be careful, as scammers out there are pretending to be legitimate charities looking to take advantage of your generosity for their gain.

When making a donation to a charity with which you are unfamiliar, you should take a few extra minutes to ensure that your gifts are going to legitimate charities. The IRS has a search feature, Tax Exempt Organization Search, which allows people to find legitimate, qualified charities to which donations may be tax-deductible. You can always deduct gifts to churches, synagogues, temples, mosques, and government agencies—even if the Tax Exempt Organization Search tool does not list them in its database.

Here are some tips to make sure your contributions go to legitimate charities.

- Be wary of charities with names that are similar to familiar or nationally known organizations. Some phony charities use names or websites that sound or look like those of respected, legitimate organizations.

- Don't give out personal financial information, such as Social Security numbers or passwords, to anyone who solicits a contribution from you. Scam artists may use this information to steal your identity and money. Using a credit card to make legitimate donations is quite common, but please be very careful when you are speaking with someone who calls you; don't give out your credit card number unless you are certain the caller represents a legitimate charity.

- Don't give or send cash. For security and tax-record purposes, contribute by check, credit card, or another way that provides documentation of the gift.

Another long-standing type of abuse or fraud involves scams that occur in the wake of significant natural disasters. In the aftermath of major disasters, it's common for scam artists to impersonate charities to get money or private information from well-intentioned taxpayers. Scam artists can use a variety of tactics. Some scammers operating bogus charities may contact people by telephone or email to solicit money or financial information, and they may set up phony websites claiming to solicit funds on behalf of disaster victims. Unscrupulous individuals may even directly contact disaster victims and claim to be working for or on behalf of the IRS to help the victims file casualty loss claims to get tax refunds.

Scammers may also attempt to get personal financial information or Social Security numbers, which can be used to steal the victims' identities or financial resources. Disaster victims with specific questions about tax relief or disaster-related tax issues can visit the IRS website for Disaster Assistance and Emergency Relief for Individuals and Businesses.

Tax Benefits of Charitable Contributions – Contributions to charitable organizations are deductible if you itemize your deductions on Schedule A. Generally, the deduction is the lesser of your total contributions for the year or 50% of your adjusted gross income, but the 50% is increased to 60% for cash contributions in years 2018 through 2025, and lower percentages may apply for non-cash contributions and certain types of organizations. Itemized deductions reduce your gross income when determining your taxable income. However, with the increase in the standard deduction as a result of the 2017 tax reform, many taxpayers are no longer itemizing their tax deductions (because the standard deduction provides a greater tax benefit). For those in this situation, there are two possible workarounds:

- **Bunching Deductions** – The tax code allows most taxpayers to utilize the standard deduction or itemize their deductions if doing so provides a greater benefit. As a rule, most taxpayers just wait until tax time to add everything up and then use the higher of the standard deduction or their itemized deductions. If you want to be more proactive, you can time the payments of tax-deductible items to maximize your itemized deductions in one year and take the standard deduction in the next.

- **Qualified Charitable Distributions** – Individuals age 70½ or older – who must withdraw annual required minimum distributions (RMDs) from their IRAs - are allowed to annually transfer up to $100,000 from their IRAs to qualified charities. Here is how this provision works, if utilized:
    1. The IRA distribution is excluded from income;
    2. The distribution counts toward the taxpayer's RMD for the year; and
    3. The distribution does NOT count as a charitable contribution deduction.

At first glance, this may not appear to provide a tax benefit. However, by excluding the distribution, a taxpayer lowers his or her adjusted gross income (AGI), which helps with other tax breaks (or punishments) that are pegged at AGI levels, such as medical expenses when itemizing deductions, passive losses, and taxable Social Security income. In addition, non-itemizers essentially receive the benefit of a charitable contribution to offset the IRA distribution.

*Substantiation* – Charitable contributions are not deductible if you cannot substantiate them. Forms of substantiation include a bank record (such as a cancelled check) or a written communication from the charity (such as a receipt or a letter) showing the charity's name, the date of the contribution, and the amount of the contribution. In addition, if the contribution is worth $250 or more, the donor must also get an acknowledgment from the charity for each deductible donation.

Non-cash contributions are also deductible. Generally, contributions of this type must be in good condition, and they can include food, art, jewelry, clothing, furniture, furnishings, electronics, appliances, and linens. Items of minimal value (such as underwear and socks) are generally not deductible. The deductible amount is the fair market value of the items at the time of the donation; as with cash donations, if the value is $250 or more, you must have an acknowledgment from the charity for each deductible donation. Be aware: the door hangers left by many charities after picking up a donation do not meet the acknowledgement criteria; in one court case, taxpayers were denied their charitable deduction because their acknowledgement consisted only of door hangers. When a non-cash contribution is worth $500 or more, the IRS requires Form 8283 to be included with the return, and when the donation is worth $5,000 or more, a certified appraisal is generally required.

Special rules also apply to donations of used vehicles when the claimed deduction exceeds $500. The deductible amount is based upon the charity's use of the vehicle, and Form 8283 is required. A charity accepting used vehicles as donations must provide Form 1098-C (or an equivalent) to properly document the donation.

Don't be scammed; make sure you are donating to recognized charities. Donations to charities that are not legitimate are not tax-deductible. Contributions to legitimate charities need to be properly substantiated if you plan to claim them as part of your itemized deductions. If you have any questions related to charitable giving, please give this office a call.

# Take Tax Advantage of a Low-Income Year

**Article Highlights:**

- Exercise Stock Options
- Convert a Traditional IRA to a Roth IRA
- Sell Appreciated Stock
- Delay Business Expenditures
- Release Dependency
- Delay Personal Deductible Expenditures

People generally assume that tax planning only applies to individuals with the big bucks. But think again, as some tax moves benefit lower-income taxpayers and those who are having a lower-than-normal income year. So, if 2019 is not producing a lot of income for you, or your income will be substantially lower this year than it usually is, you may be surprised to know that you actually might be able to take advantage of some tax-planning opportunities. Implementing some of these ideas will require action on your part before the close of the year. Here are some possibilities.

*Exercise Stock Options* – If you are an employee of a corporation, the company may offer you the option to purchase shares of it at a fixed price at some future date, so that you can benefit from your commitment to the company's success by sharing in the company's growth through the increase in stock value. If those options are non-qualified, then you have to report the difference between your preferential option price and the stock's value when you exercise the option as income. In a low-income year, this may give you the chance to exercise some or all of your options with minimal income tax liability.

*Convert a Traditional IRA to a Roth IRA* – Roth IRA accounts provide the benefits of tax-free accumulation and, once you reach retirement age, tax-free distributions. This is why so many taxpayers are converting their traditional IRA account to a Roth IRA. However, to do so, you must generally pay tax on the converted amount. Many taxpayers overlook some great opportunities to make conversions, such as in years when their income is unusually low or a year when their income might even be negative due to abnormal deductions or business losses.

*Maximize IRA Distributions* – If you are retired and taking IRA distributions, make sure that you are maximizing your withdrawals with respect to your tax bracket. With the increased standard deduction and a lower-than-normal income, it may be tax-effective to actually withdraw more than the minimum required by law. In fact, you may even be able to take a distribution from your IRA with no tax liability. Presented with this situation, you might want to take advantage of it before year's end, even if you do not need the funds, which you could bank for the future.

*Delay Business Expenditures* – If you are self-employed, you may find it beneficial to delay business-related purchases until next year to avoid reducing your current yearly income any further and save the deduction until next year, when the items are purchased.

*Release Dependency* – If you are the custodial parent of a child and receive no benefit from the nonrefundable child tax credit, you may want to consider releasing the dependency of the child to the non-custodial parent for the current year, allowing the non-custodial parent to claim the $2,000 child tax credit. Doing so will not affect your ability to claim the childcare credit or the refundable earned income tax credit. However, if the child is attending college, then any tuition credit will go to the one claiming the child. The dependency is released on IRS Form 8332, but care should be taken when completing the form to avoid unintentionally releasing the dependency for more than one year.

*Delay Personal Deductible Expenditures* – If you itemize your deductions and the deductions will provide no or minimal tax benefit this year, you might consider delaying paying that medical expense, real property tax bill, or state estimated tax payment, or making a charitable contribution, until after the first of the year. Many taxpayers find it beneficial to “bunch” deductions in one year and then claim the standard deduction in the alternate year. For example, by paying two years of church tithing or pledges to a charitable organization all in one year, deducting the total in that year, and then contributing nothing and taking the standard deduction the next year, the combined tax for the two years may be less than if a contribution was made in each year. However, before postponing payments until 2020, make sure that no penalties will be associated with delaying your tax-obligation payments.

If you have questions about employing any of these strategies or wish to make a tax-planning appointment, please give this office a call.

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Scott Jensen
Kramer & Jensen, LLC

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