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TRUST CONNECTION CLIENT INSIGHTS

A Monthly Report on
Trust News and Information

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It is important to understand the giving landscape to know how to get the most out of what you give. Working hard for success and sharing our success with others are natural outcomes of the success many of us enjoy. Making the most of what we give to those who have the least is a goal of many of us, and coordinating those objectives with family legacy issues ties the gift up with a bow. In this article, we will look at some of the ways to give, certain pitfalls and cautionary tales, as well as strategies to make the most of one's philanthropic endeavors.

Gallup asked people which of the following three charitable acts they had undertaken in the past month:

- Helped a stranger, or someone they didn't know who needed help
- Donated money to a charity
- Volunteered your time to an organization

In this survey, the USA came in second to Myanmar.

The USA gives, per capita, more money to charity annually than any other country in the world. About 95% of that giving is by individuals, through annual giving, their foundations, and their estates.

Unfortunately, Americans often wait until the last minute to make their gifts and, as a result, sometimes do not get the biggest bang for the buck, or make mistakes that cost them deductions.

The IRS has the following 8 tips to get the most from your charitable giving:

1. If your goal is a legitimate tax deduction, then you must be giving to a qualified organization. Also, you cannot deduct contributions made to specific individuals, political organizations and candidates. See IRS Publication 526, Charitable Contributions, for rules on what constitutes a qualified organization.

2. To deduct a charitable contribution, you must file Form 1040 and itemize deductions on Schedule A.

3. If you receive a benefit because of your contribution, such as merchandise, tickets to a ball game or other goods and services, then you can deduct only the amount that exceeds the fair market value of the benefit received.

4. Donations of stock or other non-cash property are usually valued at the fair market value of the property. Clothing and household items must generally be in good used condition or better to be deductible. Special rules apply to vehicle donations.

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5. Fair market value is generally the price at which property would change hands between a willing buyer and a willing seller, neither having to buy or sell, and both having reasonable knowledge of all the relevant facts

6. Regardless of the amount, to deduct a contribution of cash, check, or other monetary gift, you must maintain a bank record, payroll deduction records or a written communication from the organization containing the name of the organization, the date of the contribution and amount of the contribution. For text message donations, a telephone bill will meet the record-keeping requirement if it shows the name of the receiving organization, the date of the contribution, and the amount given.

7. To claim a deduction for contributions of cash or property equaling $250 or more you must have a bank record, payroll deduction records or a written acknowledgment from the qualified organization showing the amount of the cash and a description of any property contributed, and whether the organization provided any goods or services in exchange for the gift. One document may satisfy both the written communication requirement for monetary gifts and the written acknowledgement requirement for all contributions of $250 or more. If your total deduction for all noncash contributions for the year is over $500, you must complete and attach IRS Form 8283, Noncash Charitable Contributions, to your return.

8. Taxpayers donating an item or a group of similar items valued at more than $5,000 must also complete Section B of Form 8283, which generally requires an appraisal by a qualified appraiser.

When some of these rules are overlooked, generous people can lose substantial tax advantages. In Alli v. Commissioner the Alli lost a claimed $499,000 deduction due to lack of substantiation by the taxpayer. In another recent case a $65 million deduction was disallowed for failure to substantiate the value of the gift. Qualified appraisals are required for large, in-kind gifts.

Large gifts such as these are often made through gifting assets in-kind and/or through planned giving arrangements like Charitable Remainder Trusts and Private Foundations or Donor Advised Funds. Private Foundations and Donor Advised Funds can be a great alternative for donors with cash and securities to set aside money for charity irrevocably, thus receiving the deduction currently while having time to consider what charities should get the benefit of those funds. Private Foundations and Donor Advised Funds can also be used together in a variety of ways to optimize the impact of giving for both the charities and the family.

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For example, using a Donor Advised Fund as the recipient of year end gifts to give more time to consider the end user charity. They are also used strategically by families in helping to build and mentor family values with matching gifts, separate accounts for the children or grandchildren, and for “quiet” gifts when high profile individuals are supporting controversial causes.

Another technique often used to set a fixed gift to a favorite cause is to buy a life insurance policy and name the charity beneficiary or even owner and beneficiary, in which case the value of the policy and all future premiums paid by the donor would be tax deductible.

There is seemingly no end to the generous nature of Americans, yet planning and execution is sometimes lacking. When planning for, or making, substantial charitable gifts, make sure to consult your tax advisor and financial advisor to get the biggest impact for the charity as well as your family.

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