

Tax Tips for Holiday Charity Donations

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During the holidays, many charities solicit gifts of money or property. This article includes tips for documenting your charitable gifts so that you can claim a deduction on your tax return.

Cash Donations – To claim a charitable deduction, you normally must itemize your deductions. However, for 2021, non-itemizers filing a joint return can deduct up to \$600 of cash contributions below-the-line. The limit is \$300 for other filing statuses. Donations to donor-advised funds and private foundations aren't eligible for this below-the-line deduction. Below-the-line means that the deduction is claimed after determining your adjusted gross income (AGI) and as part of the calculation of taxable income.

***Example:** Mr. Claus, age 45, is unmarried and files using the single filing status. He has W-2 wages of \$50,000 and contributed \$1,000 to his traditional IRA during 2021. He is not itemizing his deductions, and his 2021 standard deduction is \$12,550. Mr. Claus made a donation of \$200 by check to the Humane Society on October 1, 2021. This was the only charitable contribution he made during the year. His AGI will be \$49,000 (\$50,000 – \$1,000). His taxable income, which is the amount on which his tax is computed, will be \$36,250 (\$49,000 – \$200 – \$12,550).*

There are documentation requirements when claiming a charitable contribution deduction, and of course, only contributions to qualified charities are deductible. Of course, we all know that the Red Cross, Salvation Army, and Cancer Society are legitimate, qualified charities, but what about small or local charities? Use the IRS [Select Check](#) tool to make sure a charity is qualified. However, you can always deduct gifts to churches, synagogues, temples, mosques, and government agencies – even if the Select Check tool does not list them in its database.

The documentation requirements differ for cash versus non-cash contributions. A donor may not claim a deduction for cash, check, or other monetary gift unless the donor maintains a record of the contribution in the form of either a bank record (such as a canceled 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 contribution amount. In addition, if the contribution is \$250 or more, the donor must also get an [acknowledgment from the charity](#) for each deductible donation.

If contributions are made via payroll deductions, then a pay stub, a Form W-2, or other verifying document should be maintained as verification of the gift. It must show the total amount withheld for charity. In addition, be sure to retain the pledge card showing the charity's name.

Non-cash Contributions – Non-cash contributions are also deductible but only if you are itemizing your deductions (i.e., using Form 1040 Schedule A). 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) generally are not

deductible. The deductible amount is the fair-market value of the items at the time of the donation, and as with cash donations, if the value is \$250 or more, you need to save an acknowledgment from the charity for each deductible donation. Be aware: the door hangers left by many charities after they pick up a donation do not meet the acknowledgment criteria; in one court case, taxpayers were denied their charitable deduction because their acknowledgment 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 \$5,000 or more, a certified appraisal of the item(s) donated is generally required.

Vehicle Donations – 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 a Form 8283 is required. A charity accepting used vehicles as donations is required to provide a Form 1098-C (or an equivalent) to properly document the donation.

Leave Donations – Extended for 2021, as a form of disaster relief, the IRS provides special relief in which employees can donate their unused paid vacation, sick leave, and personal leave time to disaster relief efforts, including by COVID-related charities.

If the employer is participating, employees can donate any unused and paid vacation time, sick leave, and personal leave. The employer will convert the donation to cash and donate it to charitable organizations providing disaster relief. The cash payment will not be treated as wages to the employee, and the employer can deduct the amount donated as a business expense. Both the employee and the employer will avoid payroll taxes on the donation.

Because the income isn't taxable to the employee, the employee will not be allowed to claim the donation as a charitable deduction on their own tax return. Even so, excluding income is often worth more as tax savings than a potential tax deduction would be, especially if the employee generally claims the standard deduction or the employee is subject to AGI-based limitations.

Other Qualifying Donations – Special rules also exist for purchasing capital assets for a charity, charitable organization-related travel, personal vehicle use, entertainment, and placement of students in a home. Please call for information related to these issues.

AGI Limitations – Charitable donations are also limited by a taxpayer's AGI. For instance, most charitable contributions are limited to 60% of an individual's AGI, while contributions of capital gain property deducted at fair market value are limited to 30% of AGI. There are other seldom encountered limitations as well.

For 2021, itemizers can elect to suspend the 60%-of-AGI limitation for cash contributions. If the election is made, the taxpayer's other contributions are figured first up to the 60%, 50%, 30%, or 20% of AGI limitation, and then cash contributions are allowed above those limits, up to 100% of AGI. The normal 5-year carryover applies to any excess over 100% of AGI. If no election is made, regular AGI limits will apply.

Charitable contributions are deductible in the year when you make them. If you charge a gift to a credit card before the end of the year, it will count for 2021. This is true even if you don't pay the credit card bill until 2022. In addition, a check will count for 2021 as long as you mail it in 2021.

The penalty for overstating a charitable contribution is generally 20% of the portion of tax underpayment that resulted from the overstatement. However, that penalty has been increased to 50% for non-itemizers.

Finally – Each year at this time, the IRS publishes its list of the "[dirty dozen](#)" tax scams. Among the dirty dozen are groups that masquerade as charitable organizations to attract donations from unsuspecting contributors. Before you write a check, be aware that fraudsters are out there soliciting on behalf of bogus charities and that some so-called charities aren't entirely honest about how they use

contributions.

If you have questions or concerns about your 2021 charitable donations or about the documentation required to claim deductions for them, please call this office.

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