

Abstract: The right combination of lifetime donations and charitable bequests can help donors reduce income taxes, minimize gift and estate taxes, and support the organizations they care about. The requirements for substantiating donations aren't difficult to meet, but they do require close attention. If a person fails to meet the requirements, he or she can lose the tax deduction. This article examines the substantiation rules.

Document it or lose it

Substantiation rules for charitable gifts

The right combination of lifetime donations and charitable bequests can help you reduce your income taxes, minimize gift and estate taxes, and support the organizations you care about.

When you make charitable gifts during your life, the federal government rewards your generosity by allowing you to deduct the gifts on your income tax return (up to certain limits and provided you itemize). And it allows an estate tax deduction for charitable bequests. But the government isn't so generous when it comes to inadequate documentation of these donations.

If you fail to properly substantiate a donation, you can lose the deduction. To help you protect your charitable deductions, it's worth your while to become familiar with the substantiation rules.

Cash gifts

You can substantiate cash donations of less than \$250 with a canceled check, a receipt from the charity or other reliable written record that shows the name of the charity and the date and amount of your contribution. Separate contributions of less than \$250 to a single charity aren't combined in determining whether you exceeded the \$250 threshold. So, for example, if you donate \$200 a month to a charitable organization, you can substantiate each donation with a canceled check.

Donations of \$250 or more require a contemporaneous written acknowledgment from the charity describing the amount of your contribution and any goods or services you received from the charity in exchange for the donation.

An acknowledgment is contemporaneous if you receive it on or before the earlier of either your tax return due date, including extensions, for the tax year the contribution is made or the date you actually file your return. It's critical to make sure you obtain all necessary acknowledgments before you file your return. If you don't, you can lose the deduction, even if you receive a valid acknowledgment later.

Noncash gifts

For noncash gifts under \$250, obtain a receipt that shows the charity's name, the date and location of the contribution, and a description of the property. Although the property's fair market value should be considered in determining the amount of detail included in the receipt, that value need not be stated on the receipt.

Noncash gifts of \$250 or more require a contemporaneous written acknowledgment from the charity containing the information described above for cash gifts as well as a description (but not necessarily the value) of the property.

If you donate noncash property worth more than \$500, then, in addition to the substantiation requirements described above, you also must maintain written records that document:

- The date you acquired the property,
- The manner in which you acquired the property (for example, via purchase, gift or inheritance), and
- Your adjusted basis in the property (except for publicly traded securities).

If your noncash gifts for the taxable year exceed \$500, you also must prepare and file Form 8283 ("Noncash Charitable Contributions"). Note that the \$500 threshold is an aggregate of all noncash contributions; it's not an entity-by-entity calculation.

Qualified appraisal for large noncash gifts

If you donate property valued at more than \$5,000 (\$10,000 for closely held stock), you must acquire a qualified appraisal and include an appraisal summary, signed by the appraiser and the charity, on Form 8283. You can meet the \$5,000 threshold by donating a single item or a group of similar items, even if you give them to different charities.

You don't need an appraisal for publicly traded securities. For closely held stock worth more than \$5,000 but less than \$10,000, an appraisal isn't required, but you need to complete a portion of the appraisal summary form.

For noncash contributions exceeding \$500,000 or gifts of art worth \$20,000 or more, include a copy of the signed appraisal with your return, not just the appraisal summary.

Your appraisal must be prepared, signed and dated by a qualified appraiser, as defined by IRS regulations, and must include specific information required by the regulations. The appraisal can't involve a prohibited appraisal fee and has to be

prepared no earlier than 60 days before the property is contributed and no later than the tax return due date, including extensions.

Get the deductions you deserve

The requirements for substantiating donations aren't difficult to meet, but they do require close attention. Be sure you have your documentation in order before you file your return. If you don't, you can lose the deductions, even if they're completely legitimate and supportable.