Charity—Giving it Away Productively

The information contained herein is for educational use only and should not be construed as tax, financial, or legal advice. Each individual's situation is unique and may require specialized treatment. It is, therefore, imperative that you consult with tax and legal professionals prior to implementation of any strategies discussed.

A. Motivation

- Why? (generosity, legacy, tithing, estate minimization)
- When?
- How much?
- Control?

B. Statistics

- A World population which lives on less than $1/day = 21%
- Average charitable contribution per return = 2.2% of income
- Average deduction per return = $1,052
- Households which gave to religious organization = 63%
- State with highest percentage = Utah (5.0%)
- Elimination of the Estate Tax could cause charitable donations to decrease by an estimated 22 – 37%
- Warren Buffet's $30.7 billion donation of 10 million shares of Berkshire Class B shares to the Gates Foundation increased the organization's size to $60 billion (5 times greater that any other U.S. charitable group and bigger than the gross domestic product of Kuwait). The donation is valued at about 85% of Buffet's current net worth.

C. Types of Charities

1. Public

- Domestic organization established under section 501(c)(3) and 509(a) of the Internal Revenue Code, including:
  - Churches, synagogues, temples, mosques, and other religious organizations
  - Federal, state, and local governments, if your contribution is solely for public purposes (for example, a gift to reduce the public debt)
  - Nonprofit schools and hospitals
  - Public parks and recreation facilities
  - Salvation Army, Red Cross, CARE, Goodwill Industries, United Way, Boy Scouts, Girl Scouts, Boys and Girls Clubs of America, etc.
- IRS Publication 78, *Cumulative List of Organizations,* lists tax exempt organizations that qualify for purposes of a charitable contribution deduction

2. Private Foundations

- Must be IRS-approved and pay annual excise tax on their net investment income
- Must give away a minimum of 5% of the investment assets annually
- Allow for maximum flexibility, investment control, & beneficiary designation

3. How to select

- Don't pledge over the phone
- Research the organization
  - IRS Form 990
  - Annual report
  - % of Donation to program = Total Program Expenses ÷ Total Expenses (ratio should be > 60%)

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- % of Donation Spent on Fund-raising = Fund-raising Expenses ÷ Public Support (ratio should be < 30%)
- http://www.charitynavigator.org/ --evaluates the financial health of largest charities
- http://www.charitywatch.org/ --watchdog service whose purpose is to help donors make informed giving decisions
- http://www.give.org/ --provides reports and evaluates charities in relation to Better Business Bureau standards
- http://www.guidestar.org/ --database of financial information and tax returns of over 250,000 charities

D. Tax Deduction

1. Amount

- Dollar for dollar reduction of Adjusted Gross Income (AGI).
- Reported on Schedule A as an Itemized Deduction which, in total, must exceed $5,350 (Single) or $10,700 (Married Filing Jointly) in 2007.
- Deduct up to 50% of your AGI when you contribute cash and 30% of your AGI when you donate appreciated securities.
- Excess (unused deduction) can be carried forward for up to five years.

2. Strategies

- Bunch deductions together in years where AGI is anticipated to be high or where other Itemized Deductions can be combined to exceed the Standard Deduction.
- Give larger amounts to fewer charities rather than lots of small donations to many organizations.
- Donate appreciated stock with a low cost basis—the donation will be valued at current market value, and the taxpayer can avoid 15% capital gains tax. But consider these alternatives as well:
  - Transferring these assets to children in lower tax brackets who may only pay 5% capital gains tax (and 0% in 2008 – 2010)
  - Holding dividend-paying stocks to maintain a current income stream.
  - Selling *depreciated* stock and then donating the sales proceeds

E. Methods of Giving

1. Current Donation

   a. Cash
   - Checks must be dated and postmarked in the year of deduction
   - Donations charged to a credit card in December, but not paid until January, may be deducted in the year charged
   - If a donation of $75 or more is made and donor receives goods or services in return, the charity must provide a statement detailing a good faith estimate of the value of goods and services received.

   Substantiation Requirements

   BEWARE of new rules for 2007!
   - Cancelled checks or credit card statements may be used to substantiate donations up to $250. Charity must provide a *written* acknowledgement for *cash* donations, documenting amount and date of donation [IRC §170(f)(17)].
   - Acknowledgement letters, received by the time the tax return is filed, are required for donations in excess of $250. A canceled check is not sufficient to support the deduction [IRC §170(f)(8)].

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b. Non-cash

- "For the use of…" (Deduction = FMV) versus "For the benefit of…" (Deduction = Original cost basis). Charity usually must keep the tangible asset for more than 2 years.
- Deductions for donations of partial interests are allowed only if the donor owned the property in full just prior to making the contribution and the charity eventually obtains complete ownership by the earlier of the donor's death or 10 years. The deduction is limited to the lesser of the property's FMV at the time of the initial or subsequent donation (interim appreciation may not be used to increase the tax deduction).
- A 20% penalty based on the amount of understated tax will be assessed by the IRS, if you over-value your donation (40%, if the understatement exceeds $5,000).
- Below-market sales of property to charitable organizations may partially tax-deductible. See www.dechomai.org or www.nationalrealestatefoundation.org for facilitation of real estate donations.
- Out-dated computers are difficult to donate but you may find a willing donee at http://www.sharetechnology.org/ or http://www.techsoup.org/recycle/
- Large pick-ups can be requested from Society of St. Vincent DePaul at (800) 775-2489.
- See attached for approximate valuations of used clothing and household items. Items must be in "good" condition and IRS may deny deductions for items of minimal value, such as socks and undergarments.
- Used cars, while previously eligible to be deducted at Blue Book, are now deductible only at the value established by the receiving charity. The taxpayer can no longer claim any deduction above $500 unless the recipient charity provides an acknowledgment on Form 1098-C, Contribution of Motor Vehicles, Boats, and Airplanes. The donor must attach Copy B of Form 1098-C to his Form 1040. (IRS Notice 2005-44). See IRS Publication 4303, *A Donor's Guide to Giving a Car.*

  - Outright sale: If the organization sells the vehicle, the deduction is limited to the gross proceeds from the sale reported by the charity to the donor and the IRS within 30 days after the donation.
  - Transferred to needy individual: If the charity sells or transfers the vehicle to a needy individual for less than FMV in furtherance of the organization's charitable purpose, the donor can deduct the FMV of the vehicle as of the contribution date—even if FMV exceeds the gross sales price. The charity will indicate when this exception applies on Form 1098-C.

<u>Substantiation Requirements</u>

BEWARE of new rules for 2007!

- **Less Than $250**: A receipt is not required where it is impractical to get one; for example, when property is left at a charity's unattended drop site.
- **$250 to $500**: Written acknowledgment, containing the name and address of the organization, date and location of the contribution, and a description of the property, is *required*. The acknowledgment must also state whether any goods or services were provided to the donor in return for the contributions, as well as the FMV of such goods or services.
- **$501 to $5,000**: Same as the $250 to $500 category but the taxpayer's records must also show how the property was acquired, the date acquired and the adjusted basis of the property. If the taxpayer is unable to provide the basis of the property or the date of acquisition, an explanation should be attached to the tax return.

- **More Than $5,000**: Most contributions over $5,000 require a written appraisal by a qualified appraiser.

c. Volunteer Work

- Only unreimbursed out-of-pocket expenses are deductible, such as telephone, postage, office supplies, travel, parking, tolls, and auto rental. There is NO deduction for time spent.

- 100% of "reasonable" meals and lodging may be deducted, if charitable work requires overnight stay.
- Mileage is deductible at 14¢/mile in 2007, but remember to maintain a mileage log.
- Other non-deductible outlays include babysitting expenses and blood donations.
- http://www.volunteermatch.org/ --helps to match volunteers with charities
- http://www.citycares.org/ --helps to motivate and mobilize volunteers

2. Charitable Remainder Trust (CRT)

- An irrevocable gift of cash, stock or real estate is made to a charity which sells the assets and promises to pay a lifetime income-stream to the donor.
- The principal and any undistributed interest are paid to the charity, not the donor, at the end of the trust's term.

Two Types

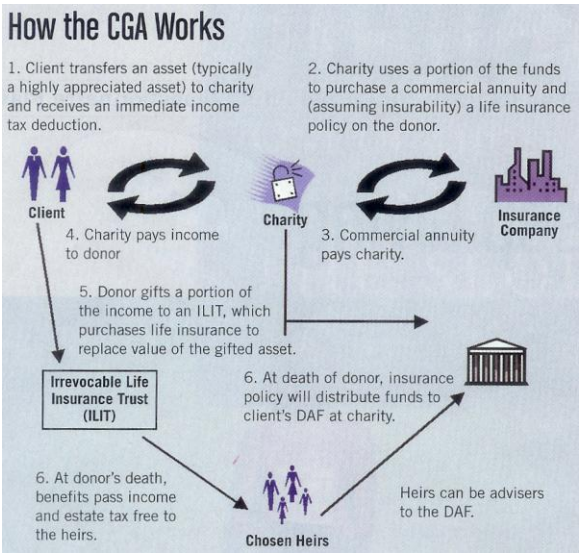
- Annuity (CRAT)—provides a guaranteed income stream to the donor
  - Pays a fixed percentage (5% minimum) of the *initial value* of the trust's assets to the income beneficiary.
  - Principal may be invaded to satisfy the requested payout.
  - No additions to the principal may be made after the trust is established.

- Unitrust (CRUT)— provides the donor with an income stream based on a specific percentage return which can keep pace with inflation, if the trust's assets continue to grow
  - Standard Charitable Remainder Unitrust (SCRUT) pays a fixed percentage of the trust's assets revalued annually, which can rise or fall.
  - Net-Income with Make-up Charitable Remainder Unitrust (NIMCRUT) pays a fixed percentage of the lesser of either the trust's value or its accounting income; the difference (or deficiency) is accumulated as an amount that must be "made up" in the future.
  - Flip Charitable Remainder Unitrust (Flip-CRUT). Characterized by two phases: The first, in which the Flip-CRUT acts like a NIMCRUT and only distributes the trust's accounting income to the income beneficiaries; in the second, which occurs after a predetermined triggering event, the trust "flips" and becomes a SCRUT.

Strategy: Hold stocks in a CRT which generate dividend income (taxed at 15%) rather than assets that generate ordinary income (taxed at regular rates).

3. Gift Annuity

- An irrevocable gift of cash, stock or real estate is made to a charity which promises to pay a lifetime income-stream to the donor which is partially tax-free as it represents a return of capital.
- Unlike the CRT, it is not a trust arrangement, but merely a promise backed by the assets of the charitable organization.
- Unlike the CRT, the donor does not contribute a "partial interest"; thus, the tax deduction is the difference between the amount of the gift and the present value of the annuity.
- If the donor dies before the recovering the tax-free portion of the contract in full, a tax deduction will be allowed on the decedent's final return.



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SUGGESTED CHARITABLE GIFT ANNUITY RATES
Single Life
Approved by the American Council on Gift Annuities
Effective July 1, 2007 through June 30, 2008

Age	Rate	Age	Rate
54	5.5%	71	6.6
55	5.5	72	6.7
56	5.6	73	6.8
57	5.6	74	6.9
58	5.7	75	7.1
59	5.7	76	7.2
60	5.7	77	7.4
61	5.8	78	7.6
62	5.9	79	7.8
63	5.9	80	8.0
64	6.0	81	8.3
65	6.0	82	8.5
66	6.1	83	8.8
67	6.2	84	9.2
68	6.3	85	9.5
69	6.4	86	9.9
70	6.5	87	10.2
		88	10.6
		89	11.0
		90 and over	11.3

4. Charitable Lead Annuity Trust (CLAT)

- An irrevocable gift is made currently to a trust which promises to pay an income-stream to a charity for a specific period of time.
- At the end of the term, the trust assets pass to the donor's heirs.

Two Types

- Grantor Trust—taxpayer receives a tax deduction in Year 1 for the present value of the charitable payments, but then must recapture the deduction taken each year as income is earned by the trust.
- Non-grantor Trust—the trust pays tax on the income generated in the portfolio and then receives an annual deduction for the amount of the charitable payments.

5. Pooled Income Fund (PIF)

- Donor contributes cash or securities which are invested with a mutual fund company.
- Donor may name up to two beneficiaries who may receive lifetime income streams.
- Upon death of the final beneficiary, the account balance is distributed to the charity.
- Taxpayer receives a current deduction based on an actuarial calculation of the income beneficiaries' lifetime interests.

6. Donor-advised Funds

- An irrevocable contribution of cash, securities or real estate to a charitable mutual fund that invests donations and later distributes the money to other charities.
- Although there are no costs to establish, annual management fees range from 0.65 to 3%.
- Various investment pools ranging from aggressive to conservative are available.
- Most IRS-approved non-profits are eligible beneficiaries.
- Allows taxpayer to deduct the donation immediately even though he designates charitable distributions to be made in the future.

7. Designating a Charity as Retirement Account Beneficiary [compare to §F.6]

- If a charity is named as a primary beneficiary, the IRA owner will be required to take his MRD based on his own life expectancy, thereby depleting the account more rapidly than necessary.
- If, on the other hand, a spouse is named as the primary beneficiary and a charity is named as the contingent beneficiary, the MRD may be calculated based on a joint life expectancy of the account

holder and spouse. At death, the beneficiary spouse could elect to disclaim the inherited IRA and allow the entire amount to pass to the charity free of income and estate taxes.

- Alternatively, account holder could offset the income tax consequences of his MRD by donating the annual distributions to charity.
- If only a portion of IRA assets are to be donated to charity, it might be best to separate the existing assets into two or more IRA accounts.

8. Irrevocable Life Insurance Trust (ILIT)

- Used to hold life insurance outside of an estate in order to avoid eventual income and estate taxes
- The trust is a separate entity from the insured's estate and is, therefore, not a part of the decedent's net worth
- Heirs receive the insurance proceeds free and clear of income and estate taxes
- ILITs can be used as wealth replacement strategies

F. Other Creative Alternatives

1. Doubling the Contribution

- Contact your employer to find out whether he might match a cash donation made to your favorite charity.
- Alternatively, the charity may be able to provide a list of sponsors willing to make matching contributions.

2. Tuition and Fees for Private Education

- Are NOT deductible (*Sklar*, TC 14, Dec. 2005), since the amounts are not paid "with disinterested and detached generosity."

3. Volunteer Vacations

- See http://www.charityguide.org/volunteer/vacations.htm.
- Because volunteers are often asked to pay for their own travel expenses, recruiting costs, volunteer training, and on-site coordination, program fees typically range from $50 to $3,000+, depending on the agency's degree of involvement and the accommodation provided.
- Accommodations are usually basic and volunteers may have to prepare their own meals.
- Some organizations charge higher fees and offer greater comfort, extensive pre-trip reading materials, airport escorts, security when using public transportation in high risk areas, on-site training, hotel accommodation, prepared meals, a volunteer coordinator on-site at all times, assistance dealing with local officials, etc.
- Some or all of these fees and travel expenses may be tax deductible.

4. Catholic Worker

- Over 185 independent communities are committed to nonviolence, voluntary poverty, prayer, and hospitality for the homeless, exiled, hungry, and forsaken, while protesting injustice, war, racism, and violence of all forms.
- To avoid governmental oversight, most of the communities are not registered as 501(c)(3) organizations—therefore, donations are NOT tax deductible.

5. CA Volunteers

- See http://www.californiavolunteers.org/ (sponsored by the Office of the Governor).
- Provides a listing of opportunities by zip code and interest category.

6. Qualified Charitable Distributions

- The Pension Protection Act of 2006 permits individuals to donate up to $100,000 from an Individual Retirement Account (IRA) directly to a qualifying charity.
- The distribution must originate from a Traditional IRA [only!] and transferred to an eligible charitable organization. (Donor-advised funds are ineligible, but certain private operating foundations may qualify.)

- The IRA owner must be at least 70-1/2 years old.
- Eligible distributions made **prior to December 31, 2007** are not counted as taxable income. Of course, donated amounts in turn are not deductible as charitable contributions.

BEWARE: Donors must still receive the usual *written* acknowledgement of the contribution.

- Most suitable for:
  - Donors who itemize deductions but whose charitable contributions will be reduced by the percentage of income limitation or AGI-based phase-outs.
  - Donors who do not itemize deductions.
  - Donors who may avoid increased taxation of Social Security Benefits by keeping taxable income below the critical amounts.

Tax on SS Benefits w/ Excess Income

Filing Status	0% Taxed	50% Taxed	85% Taxed
Single	<25K	25-32K	>32K
Married Joint	>32K	32-44K	>44K

7. Testamentary Donations

- While gifts and bequests to lodges, amateur sports organizations, veterans groups and tribal governments are ineligible, most gifts to *foreign* charities do qualify for the estate and gift tax charitable deduction (Forms 706 and 709) and can be used to decrease the size of the taxable estate.
- Contributions made from taxable income (i.e. *not* tax-free interest or distributions of principal) may be deducted against the estate's taxable income on the fiduciary return (Form 1041), if contributed pursuant to the terms of a governing instrument.

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FUNDRAISING REDUCTION NOTICE

I am sending this note to reduce the waste and invasion of privacy caused by unwanted mail solicitations and telemarketing calls. If you would like me to consider contributing to your organization in the future, please agree to the following checked items:

___ Remove my name and address from your mailing list.

___ Do not sell, rent, exchange, or give my name or contribution history to any other organization or business without first receiving my approval.

___ Do not send me direct mail solicitations more than ___ times a year.

___ Do not telephone me to ask for money, or...

___ Phone me no more than ___ times a year, and only on the following day(s) and times: _____

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Valuation Guide
October 2007

Clothing and Accessories			
	Women's	Men's	Children's
Tops			
Shirts/blouses	$2-12	$2-8	$1-6
Sweaters	$2-20	$5-15	$1-6
T-shirts	$1-6	$1-6	.50-$3
Tanks	$1-6	$1-6	.50-$3
Vests	$3-9	$3-9	$1-3
Bottoms			
Casual	$2-10	$2-10	$1-6
Dress	$2-10	$2-15	$1-6
Shorts	$1-9	$1-9	.50-$6
Skirts	$2-12		$1-6
Jeans	$4-21	$4-21	$2-10
Dresses			
Everyday	$3-17		$2-6
Evening wear	$3-30		
Suits			
Two-piece	$5-30	$10-30	
Sweats			
Top	$2-12	$2-12	$1-6
Bottom	$2-12	$2-12	$1-6
Sleepwear			
Pajama	$2-10	$2-10	$1-6
Nightgown	$2-10		$1-6
Robe	$2-10	$2-10	$1-6
Outerwear			
Coats	$7-40	$7-40	$3-15
Blazer	$4-12	$4-12	$2-6
Sport coat	$4-12	$4-12	$2-6
Swimwear			
One- and two-piece	$4-12	$4-12	$1-6
Shoes			
Shoe/Tennis	$4-9	$4-9	$2-6
Sandal/Slipper	$4-9	$4-9	$2-6
Boots (ankle)	$6-18	$6-18	$2-6
Hand-carried items			
Handbags	$3-9		
Wallets	$2-6	$2-6	
Umbrellas	$2-6	$2-6	
Luggage	$5-15	$5-15	
Belts			
Cloth/Plastic	$2-6	$2-6	.50-$1.50
Leather	$5-15	$5-15	$3-9

Household and miscellaneous items	
Electrical	
Lamp	$4-12
Coffee maker	$4-15
Radio	$2-15
VCR/DVD	$8-15
Griddle	$4-12
Computers	
Monitors	$5-50
Printers	$5-150
Systems	$100-400
Kitchen items	
Glasses/mugs/cups	.50-$1.50
Plates	.50-$3
Gadgets	.50-$1.50
Pots and pans	$1-3
Baking pans	$1-3
Furniture	
Coffee tables	$10-12
Desks	$30-60
Dressers	$20-60
End tables	$4-20
Sofas	$30-150
Chairs	$5-15
Kitchen/dinette set	$40-100
Bedding	
Sheets/dust ruffles/mattress pads	$2-6
Quilts/bedspreads	$8-24
Blankets/afghans	$2-15
Toys, games, sports equipment	
Puzzles	.50
Board games	$1
Stuffed Animals	.50-$1
Roller blades	$3-15
Ice skates	$3-15
Tennis racket	$3
Golf clubs	$2-25
Books and multimedia	
Paper back	.75-$1.50
Hardcover	$1-3
Records	$1
CDs	$2-5
DVDs	$2-5

Goodwill Industries International, Inc.

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