TAX ALERT

Wilkin & Guttenplan, P.C.
Certified Public Accountants
& Consultants

1200 Tices Lane
East Brunswick, NJ 08816
732-846-3000
fax: 732-846-0618
www.wgcpas.com

Charitable Contribution Documentation

As now is the time when many of us are putting together our 2007 tax return information, we thought this would be a good opportunity to remind our clients and friends about the relatively new rules regarding substantiation of charitable contributions.

In response to perceived abuses, Congress has dramatically changed the landscape in this area. Previously, a taxpayer could often, under audit, demonstrate that a charitable contribution was a reasonable expense based on other factors (such as previous giving patterns, etc.) and be entitled to a deduction. Under the current rules, a taxpayer cannot claim the deduction if they do not have records that substantiate the charitable contribution.

Here's a summary of these rules:

- If you claim a deduction for a cash charitable contribution of less than $250, you must maintain reliable written records regarding the contribution, regardless of the value or amount of the contribution. For a contribution of money, you generally must maintain a bank record (such as a cancelled check) or a written communication from the donee showing the name of the donee organization, the date of the contribution, and the amount of the contribution. It's not sufficient to maintain other written records, such as a log of contributions.

- If you made a contribution of more than $75 for which you received goods or services in return for your contribution, the charity must provide you with a written statement, either when it asks for the donation or when it receives it, that tells you the value of those goods or services. For example, if you gave $100 and in return received a dinner worth $30, you can deduct $70.

- Stricter substantiation requirements apply in the case of charitable contributions of cash with a value of $250 or more. No charitable deduction is allowed for any contribution of $250 or more unless you substantiate the contribution by a contemporaneous written acknowledgement of the contribution by the donee organization. You must have the receipt in hand by the time you file your return (or by the due date, if earlier) or you won't be able to claim the deduction. A cancelled check, by itself, is not sufficient.

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- For a contribution of property other than money, you generally must maintain a receipt from the donee organization showing the name of the donee, the date and location of the contribution, and a detailed description (but not the value) of the property. You need not obtain a receipt for a donation of property other than money, however, if circumstances make obtaining a receipt impractical (i.e. such as using a charity's unattended drop site). Under those circumstances, you must maintain reliable written records regarding the contribution. The required content of such a record varies depending upon factors such as the type and value of property contributed.

- If the total charitable deduction you claim for non-cash property is more than $500, you must attach a completed Form 8283 (Noncash Charitable Contributions) to your return or the deduction is not allowed. In general, you are required to obtain a qualified appraisal for donated property with a value of more than $5,000, and to attach an appraisal summary to the tax return. (The appraisal must be obtained during the required window period which begins 60 days before the property contribution and ends on the due date for the tax return for the year of donation.) A qualified appraisal isn't required for publicly-traded securities for which market quotations are readily available.

- If you donate an automobile, boat or airplane, be sure to obtain Form 1098-C from the charity. This form will reflect the amount of the deduction and must be attached to the return.

While in some cases we may request copies of your documentation for charitable contributions, usually an itemized listing of the contributions will suffice. You must retain the above described documentation in your records in the event of an audit.

Please call us if you have any questions about these rules. Together we can make sure that you'll get all the deductions to which you're entitled.

Any U.S. tax advice contained in this communication is not intended or written to be used, and cannot be used, for the purpose of avoiding tax penalties that may be imposed on the taxpayer.