



December 14, 2010

Charitable Donations to Reduce Tax Liability

Everybody knows that giving to certain charities can be tax-deductible. The amount of deductions you can make depends on your tax bracket and other factors. What's more, you have the opportunity to contribute to society in some way. But you need to bear in mind a few rules you need to follow.

To be eligible to make the deduction from your taxable income, you must furnish the IRS with the name of the charity, the date and amount of contribution in a written statement from the charity. Alternatively, you can provide the IRS with a bank record in the form of a credit card statement, bank or credit union statement and cancelled checks. Bank statements should show the name of the charity, the date and amount paid whereas credit card statements should show the transaction posting date.

Your contributions can be made in the forms of cash, check, electronic transfers, credit card payments or payroll deductions. If you choose to make payroll deductions, you should fill up a W-2 Form wage statement or other form furnished by your employer that shows the amount withheld for the charity, a pledge card containing the name of the charity. In addition, you should retain your pay stub.

Many contributors choose to do so at the end of the year. If you take this option, remember that contributions made by credit cards are counted for the year the charge is made to your card. So if you charged your credit

card in late December 2010, your contribution is deductible in 2010 even though your bill does not fall due until 2011.

Another thing to bear in mind is that only donation to qualified organizations are tax deductible. The list of qualified charities is found in IRS Publication 78. Religious organizations such as churches, synagogues, temples, mosques are qualified charities even though most of them would not be listed under Publication 78, as are government agencies.

To qualify for deductions, you must itemize your deductions in Form 1040 Schedule A. If you make non-cash contributions like clothing and household items, you should obtain a receipt that states the name of the charity, detailed description of the item(s) you contributed, its market value and the date of contribution. If your contribution is worth more than \$250 then some additional rules would apply.

If the amount of your deduction for all non-cash contributions is more than \$500, you should submit a properly completed Form 8283 together with your tax return.