



ADELMAN KATZ & MOND LLP
ACCOUNTANTS AND CONSULTANTS

230 W. 41 ST STREET
15TH FLOOR
NEW YORK, NY 10036-7207
TEL: 212.382.0404
FAX: 212.382.2686
www.akmcpa.com

Alan R. Adelman, CPA
Lawrence Katz, CPA, CFP®, PFS
David E. Mond, CPA
Jack E. Gold, CPA
Stuart J. Hammer, MBA, CPA
Warren M. Bergstein, CPA

Client Information Bulletin

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How to “Cash In” on Charitable Deductions

Observe recordkeeping requirements for 2005 returns

The IRS is stepping up its investigation of deductions claimed for charitable donations. Therefore, the records you keep to back up your claims must be able to stand up to the strictest scrutiny. Otherwise, you run the risk that your deductions may be reduced or denied.

What sort of records are we talking about? There are two main categories for cash or cash-equivalent donations.

1. Contributions of \$250 or more: The tax law generally permits you to deduct the full amount of cash contributions or donations made by check. To substantiate these charitable gifts, you are required to obtain a written acknowledgment from a qualified charitable organization in order to claim a deduction for a donation of \$250 or more.

The acknowledgment must be obtained by the earlier of the date your tax return is filed or the due date of the return (plus any extensions). It should include the following elements:

- ◆ the amount of cash or the check;
- ◆ a description of any noncash property that was contributed; and
- ◆ if any goods or services were provided, the value of the benefit.

Key exception: If the goods or services received consist solely of “intangible religious benefits,” you can substitute a statement to that effect.

What if you make several payments over the course of the year to the same charity? Separate payments generally are not lumped together for these purposes. However, the IRS may treat a series of smaller payments totaling \$250 or more as a single payment if they are made on the same date or within a short period of time.

Note: If donations are made through payroll deductions, each paycheck is regarded as a separate payment for this purpose.

2. Quid pro quo contributions: For a “quid pro quo contribution” (i.e., a contribution that is made at least partially in exchange for goods or services) above \$75, the charity must provide a “good faith estimate” of the goods and services received and the amount of payment exceeding the value of the benefit.

Hypothetical example: Suppose you attend a dinner sponsored by a charitable organization. The ticket to the event costs \$100, but the dinner is valued at \$40. **Result:** The charity must notify you in writing that the value of the dinner was \$40 and that only \$60 of

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