INTERNAL REVENUE SERVICE

IRS News Release

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Recent Tax Law Changes May Affect People Giving to Charity: IRS Offers Tips for Year-End Donations

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WASHINGTON — Individuals and businesses making contributions to charity should keep in mind several important tax law changes made last summer by the Pension Protection Act.

The new law offers older owners of individual retirement accounts a new way to give to charity. It also includes rules designed to provide both taxpayers and the government greater certainty in determining what may be deducted as a charitable contribution. Some of these changes include the following.

New Tax Break for IRA Owners

An IRA owner, age 70 ½ or over, can directly transfer tax-free, up to $100,000 per year to an eligible charitable organization. This option is available in tax years 2006 and 2007. Eligible IRA owners can take advantage of this provision, regardless of whether they itemize their deductions. Distributions from employer-sponsored retirement plans, including SIMPLE IRAs and simplified employee pension (SEP) plans are not eligible.

To qualify, the funds must be contributed directly by the IRA trustee to the eligible charity. Amounts so transferred are not taxable and no deduction is available for the amount given to the charity.

Not all charities are eligible under this provision. For example, donor-advised funds and supporting organizations are not eligible recipients.

Transferred amounts are counted in determining whether the owner has met the IRA's required minimum distribution rules. Where individuals have made nondeductible contributions to their traditional IRAs, a special rule treats transferred amounts as coming first from taxable funds, instead of proportionately from taxable and nontaxable funds, as would be the case with regular distributions.

Rules for Clothing and Household Items

To be deductible, clothing and household items donated to charity after Aug. 17, 2006, must be in good used condition or better. However, a taxpayer may claim a deduction of more than $500 for any single item, regardless of its condition, if the taxpayer includes a

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qualified appraisal of the item with the return. Household items include furniture, furnishings, electronics, appliances, and linens.

Guidelines for Monetary Donations

To deduct any charitable donation of money, a taxpayer must have a bank record or a written communication from the charity showing the name of the charity and the date and amount of the contribution. A bank record includes canceled checks, bank or credit union statements and credit card statements. Bank or credit union statements should show the name of the charity and the date and amount paid. Credit card statements should show the name of the charity and the transaction posting date.

Donations of money include those made in cash or by check, electronic funds transfer, credit card, and payroll deduction. For payroll deductions, the taxpayer should retain a pay stub, Form W-2 wage statement or other document furnished by the employer showing the total amount withheld for charity, along with the pledge card showing the name of the charity.

Prior law allowed taxpayers to back up their donations of money with personal bank registers, diaries or notes made around the time of the donation. Those types of records are no longer sufficient.

This provision applies to contributions made in taxable years beginning after Aug. 17, 2006. For taxpayers that file returns on a calendar-year basis, including most individuals, the new provision applies to contributions made beginning in 2007.

The new law does not change the prior-law requirement that a taxpayer get an acknowledgement from a charity for each deductible donation (either money or property) of $250 or more. However, one statement containing all of the required information may meet the requirements of both provisions.

To help taxpayers plan their holiday-season and year-end donations, the IRS offers the following additional reminders:

- Contributions are deductible in the year made. Thus, donations charged to a credit card before the end of the year count for 2006. This is true even if the credit-card bill isn’t paid until next year. Also, checks count for 2006 as long as they are mailed this year.

- Check that the organization is qualified. Only donations to qualified organizations are tax-deductible. IRS Publication 78, available online and at many public libraries, lists most organizations that are qualified to receive deductible contributions. The searchable online version can be found on IRS.gov under, “Search for Charities.” In addition, churches, synagogues, temples, mosques and government agencies are eligible to receive deductible donations, even though they often are not listed in Publication 78.

- For individuals, only taxpayers who itemize their deductions on Schedule A can claim a deduction for charitable contributions. This deduction is not available to people who choose the standard deduction, including anyone who files a short form (1040A or 1040EZ). A taxpayer will have a tax savings only if the total itemized deductions (mortgage interest, charitable contributions, state and local taxes, etc.) exceeds the standard deduction. Use the 2006 Schedule A, available now on IRS.gov, to determine whether itemizing is better than claiming the standard deduction.

- For all donations of property, including clothing and household items, get from the charity, if possible, a receipt that includes a description of the donated property. If a donation is left at a charity's unattended drop site, keep a written record of the donation that includes a description of the property and its condition.

- The deduction for a motor vehicle, boat or airplane donated to charity is usually limited to the gross proceeds from its sale. This rule applies if the claimed value of the vehicle is more than $500. Form 1098-C, or a similar statement, must be provided to the donor by the organization and attached to the donor's tax return. See IRS Publication 526, Charitable Contributions, for more information.

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