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With the Right Strategies You Can Maximize Your Charitable Gifts

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There are many ways to give to schools, churches, and charities this holiday season and throughout the year.

With that in mind, here are a few general rules that can help if you are looking for tax deductions for your charitable donations:

• You can receive tax benefits for charitable donations on your corporate and trust income tax returns and if you itemize deductions on your personal return.

• If you are a volunteer, you cannot deduct the value of your time, but you can deduct your out-of-pocket expenses, such as mileage at 14 cents per mile, cost of uniforms and cleaning, and out-of-town travel costs.

• Donations of cash are not as beneficial as donations of appreciated property (property that has increased in value since you purchased it) because your deduction is based on the fair market value of the property you donate and you avoid recognizing the gain if you were to sell the property instead.

• If you are a business owner, generally you must deduct your donation of inventory at its cost to you, not its retail price.

• Avoid donating investment property that has gone down in value since you purchased it. Sell the property, claim the capital loss, and donate the cash from the sale instead.

• Donations of household items are hard to value. Use the calculator at http://turbotax.intuit.com/personal-taxes/itsdeductible/ to determine the amount you can deduct.

• For 2009, IRA owners who have reached age 70 1/2—and who must begin to withdraw money from their retirement accounts— can contribute up to $100,000 of otherwise taxable payouts directly to charity.

• If you charge a donation on your credit card, the contribution occurs when you charge it, not when you pay the bill.

Sometimes donors make large donations that benefit charity and retain benefits for themselves and their families. Among the most common techniques:

Charitable Lead Trusts. Property is transferred to a trust that distributes income to a charitable beneficiary for a period of time not to exceed 20 years or for the life or lives of designated individuals. The remainder of the interest reverts back to the donor or some other non-charitable beneficiary.

The grantor claims income and receives a charitable deduction on his income taxes for the present value of the total anticipated income during the lead period. With a non-grantor trust, the grantor does not claim income and cannot receive charitable deduction. For estate

tax purposes, under a grantor trust, the value of the asset is generally out of the estate of the grantor who created it; with a non-grantor trust, the value is out of the estate.

The non-charitable beneficiary can be the grantor, spouse, child, or other person. This is good for people with large amounts of highly appreciating assets who can forego the income from these assets. When interest rates are low, this increases the valuation of the deductible interest donation.

Charitable remainder trusts involve split-interest gift in which a donor receives either a fixed or variable annuity for a period of time not to exceed 20 years or for the life or lives of designated individuals and the remainder goes to charity. For estate tax purposes, if the trust is created during life, the donor receives immediate charitable contribution income-tax deduction for fair market value less present value of retained interest. Annual income is taxable to the income beneficiary.

For estate-tax purposes, the property value is included in the gross estate, but an equivalent charitable deduction reduces the taxable estate amount to zero.

Note that contributions allowed only at setup for charitable remainder trusts; charitable remainder unitrusts allow contributions after initial setup. While CRAT provides a fixed annuity, CRUT can provide a hedge against inflation. When interest rates go up, the deductible charitable remainder interest goes up.

Pooled income funds are investment funds created and maintained by target charities, and pool property from all contributors, paying a pro rata share of income earned by commingled trust assets. If created during life, the donor receives an immediate charitable contribution deduction on income taxes for fair market value, less the present value of retained interest. Annual income is taxable to the income beneficiary. For estate tax purposes, the property's value is included in the gross estate, but an equivalent charitable deduction reduces the taxable estate amount to zero.

Note that tax-free securities cannot be contributed. This is a good choice for those who do not want to set up and maintain a trust. Many colleges and universities maintain these.

Finally, remember that you cannot take a deduction on your return unless you can prove you made the donation. Get a receipt from the charity. For donations of property worth more than $5,000, you may need an appraisal. Happy giving!