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Save Your Receipts! How to document your charitable contributions to claim a tax deduction

Donating to charity is a great way to spread kindness and goodwill during the holiday season. In addition to helping nonprofit organizations perform important work, charitable contributions can be a great way to lower your income tax bill. To make sure that you can claim a tax deduction, it is important to follow several recordkeeping rules required by the IRS.

First, what kind of gifts can be deducted?

To be eligible for the charitable deduction, the gift must be made to a qualified U.S. charity described in section 501(c)(3) of the tax code. This includes both public charities that are broadly supported by the general public, and private foundations established by family members.

It's important to note that not all organizations that operate in the public interest are tax-exempt. A good way to check whether your gift to a particular charity will be deductible is to consult the official IRS website or ask one of your Choate team members. The IRS only recognizes charities that are organized and operated exclusively for charitable, scientific, literary, educational, or religious purposes.

What records should I keep?

To qualify for the charitable deduction, you will need to keep specific records about each charitable gift you make. The IRS is very strict about these rules, which means that if you do not follow them to the letter, you will miss out on the income tax deduction (and you won't be able to get your money back from the charity either).

The specific recordkeeping requirements can be complicated, and it's best to consult with your tax advisors regarding your specific situation. But here are the key points:

- **Written statement from the charity**: The charity should provide a written statement containing the charity's name, the date of the donation, the dollar amount of cash or a description of the donated property, and a statement that no goods or services were provided in return for the contribution (or if goods or services were provided, a description and good faith estimate of their fair market value). You should be sure to obtain this statement before you file your tax return. Most charities send thank-you letters that comply with this requirement, even for smaller gifts (under $250 cash) where these rules technically do not apply.
- **Additional tax forms**: If you make gifts of property (including marketable securities) worth over $500, you need to include a special IRS form (called Form 8283) as part of your tax return. The specific requirements can be technical, and we recommend that you consult with your tax return preparers to make sure you meet the requirements.
- **Appraisal**: For larger in-kind gifts over $5,000, you will also ordinarily need to obtain a "qualified appraisal" from a qualified appraiser. In some cases, you need only keep the appraisal in your records, but depending on the size of the gift, you may also need to attach it to your tax return so that the IRS can review it. In general, anything other than cash and publicly traded securities needs to be appraised – such as ownership interests in closely-held entities, real estate and cryptocurrency. And in some cases, even publicly traded securities may require an appraisal, for example, if they are subject to trading restrictions such as SEC Rule 144.
- **Special assets**: There are special rules for charitable donations of vehicles, clothing and household items. Consult your tax return preparer to make sure you can deduct these gifts.

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What about gifts to my own private foundation?

Many clients structure their charitable giving using their family's private foundations. Very frequently, the donor serves as the trustee or director of the private foundation that receives the charitable gift.

It's important to keep in mind that all of the IRS rules described above apply to gifts to private foundations – even if this means that you need to send a written gift acknowledgment or a thank-you letter to yourself.

As always, if you have any questions about these rules, please do not hesitate to contact any member of your Choate team.

Happy holidays!

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