How to Make Charitable Contributions so as not to Invite an Audit Flag

Apparently, one of the best reasons to give a charitable donation is because when you give, you actually get something in return for your efforts. There is that general good feeling or natural high you might get from simply knowing that you helped someone out that day. If these are reflected in your tax returns, the IRS takes notice as these qualify you to a tax deduction. In order to claim these deductions, you literally have to jump through fire first. As of January 1, 2007, more documentation is required for deductions related charitable contributions. But, even with the added requirements and a probable IRS problem, in the end it is still worth the effort to help other people out.

Every dollar you donate equates to a certain saving, which is equivalent to your marginal tax bracket. For example, you'll be entitled to a savings worth $250 or 350% if you give a donation of $1,000 and you're in the 25% or 35% tax bracket, respectively. Hence, in the 2nd option, the donation is just actually worth $650. Sadly, there are restrictions to the amount of savings that you can get. If your contributions total to more than 20% of your adjusted gross income (AGI) in a given year, you will be subjected to the relevant deduction limits set by the IRS. Once again, the extent of the restrictions will be dependent on your specific circumstance. Often, the policies concerning donations could get complicated and ambiguous that it will result to audit flags or even an IRS problem.

Consider a case of a person who has an AGI of $100,000 and he/she does not spend that amount. In effect, the person will have a great deal of actual cash to make him/her qualified in giving out large donations to accredited non-profit organizations. In this case, he/she will be limited to a 50% deduction on the AGI, which means, $50,000.

Only cases that apply to donations made to fully-accredited institutions are discussed above, but there are still more. Time and effort spent on volunteering for charitable works will also qualify you to a tax deduction. However, in the event that you make donations to specific individuals or to those who merely asked for your help, such contributions will not merit a tax deduction.

Smart givers never sell their stocks and simply donate the cash equivalent. They do this especially when they can give out stocks that have appreciated as doing so will entitle them to a deduction equal to the earned appreciation. In fact, if you have owned a security or stock for over a single year, you can actually subtract the full-market price of that item and yes, without paying tax on the appreciation. For example, if you bought 1,000 shares of common stock in a corporation two years ago at $14 each, and on today's market it's actually worth $20 for each share, if you donated the actual shares of stock to charity, then you could subtract the full $20,000 and not pay taxes on the gained $6,000.

You can, in fact, get deductions equal to the fair-market value of equipment, furniture, clothes and other items given to charity. The Pension Protection Act of 2006 states that these items should be in good condition, otherwise you won't qualify for the deduction. Just be certain that you meet this criterion despite the fact that the term 'good' was never operationally defined. Doing so will help you refrain from getting an audit, or an IRS problem altogether.

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