

THE PLAIN DEALER

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ASK THE EXPERT

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Credentials: Certified Financial Planner, Certified Public Accountant, Certified Investment Management Analyst

Experience: 15 years

Assets under management: About \$244 million

Question: *My husband and I frequently purchase tickets for charitable fund-raisers that list a “suggested donation” on the ticket. It’s understood that this is the price of the ticket. This came to light recently when our church sent us tickets to sell for the spring festival fund-raiser. The tickets are printed with “suggested donation: \$5 each.” This made me wonder: If it’s a donation, couldn’t I make a different donation and still be eligible for a tax deduction?*

Advice: This is a hot topic. According to a recent report issued by Fidelity Investments, eight out of 10 Americans donate to charity every year in the form of cash donations. Unfortunately, several of the tax rules surrounding charitable contributions can get a bit tricky. Hopefully, we can shed a bit of light on the nuances of the laws.

First, if you receive a benefit (think goods or service) as a result of making a donation to a qualified organization, you may deduct only the amount of your contribution that is greater than the value of the benefit received.

For instance, let’s say the market value of a ticket to the spring festival you noted is \$5 (as indicated by the suggested donation). If the ticket is purchased for \$5, then no amount of the donation is eligible for deduction.

However, if the ticket is purchased for \$50, then \$45 would be considered a charitable contribution. Please note

for the excess amount to qualify, it must be paid with the intent to make a charitable contribution.

Next, it’s important to note that the IRS has become increasingly stringent about record-keeping related to charitable contributions.

As an example, a cash donation, regardless of amount, cannot be deducted unless you have proof of payment from a bank (a canceled check or statement for an electronic payment) or a written proof from the charity (containing the charity’s name, date and amount of contribution). Our friends at the IRS can and will disallow your deduction if you fail to provide the necessary documentation.

When making donations, there are opportunities for even more tax savings by choosing to contribute appreciated securities versus cash. Let’s consider a hypothetical charitable contribution of \$5,000. Assuming a 28 percent personal federal income tax rate, a donation in either cash or appreciated securities would produce a federal ordinary income tax savings of \$1,400.

However, in the case of the appreciated securities, additional savings can be realized by avoiding the federal capital gains and Ohio income tax on the appreciation of the stock or mutual fund.

For example, if the \$5,000 donated stock or mutual fund has a cost basis of \$3,000, an additional \$400 tax savings would be realized. This is a result of not having to pay the federal and Ohio tax on the \$2,000 of appreciation, yielding a total combined tax savings of \$1,800 (see chart above).

Any appreciated security with long-term unrealized gain may be donated to a charity with a tax deduction taken for the full market value of the security — up to a limit of 30 percent of the donor’s adjusted annual gross income. (A long-term unrealized gain means it was purchased more than a year ago and has a current value greater than its original cost.) Since the security was donated to charity rather than sold, then capital gains and Ohio taxes from selling that security are no longer applicable.

Donating to worthy charities is a great practice. Using appreciated securities is an often overlooked strategy that helps ensure that your gifts will keep on giving — at tax time.