

Charity and Taxes Part 4

by Jerry Engel, C.P.A.

You can save more by making a charitable gift in one form than in another. Nothing complicated is involved—but many people overlook the tax-saving possibilities in charitable giving. This is the last of a series of Reports explaining the year-end moves to make for maximum overall tax saving. (Excerpts from Research Institute of America, Inc. Vol. II, No. 36)

Contributing profit only

Many persons are reluctant to give away "capital." But while preferring to retain original cost, they would be willing to contribute paper profits. And there's a strong argument for doing this, since in contributing property that has increased in value, the tax saving results from the fact that the profit is not realized. Thus, if you can contribute unrealized profit alone, the tax saving will be exactly the same, but you keep the capital.

This result can be accomplished, in effect, via a "bargain sale" to the charity. The price the charity pays for the property should be your basis (cost) rather than the appreciated value. To the extent that the value of the property exceeds the bargain price, there is a contribution. The Treasury agrees that this is a proper tax-saving method.

Illustration: Mr. Brown, who is in the 50% bracket, has stock which cost him \$2,000 a year ago and is now worth \$3,000. He sells the stock to a charity for \$2,000. This bargain sale gives him a \$1,000 deductible contribution. The net result is to save him \$500 in taxes, or in other words, to leave him with \$2,000 in cash plus \$500 in tax saving.

If he had sold the stock for \$3,000 with no intention of giving anything to charity, he would have received \$3,000 and owed \$250 in additional taxes, for a net of \$2,750. Thus, it cost him only \$250 to contribute \$1,000. If the property were held primarily for sale to customers, the tax saving would be considerably more. In that case, he would have done as well by giving the profit away as by selling the property.

Observation: A charitable gift of profit on securities is particularly helpful to a middle or upper bracket donor who otherwise would be impelled by market conditions to sell and realize a short term capital gain. If the donor's tax bracket is over 50%, the tax saving from contributing the profit is greater than the after-tax profit left from a sale.

Illustration: This can also be used for merchandise. A dept store which has a 40% mark-up could sell merchandise at cost to a charitable, religious, etc., organization. Thus, \$25,000 of merchandise at retail prices could be sold for \$15,000 (its cost) to a charitable, religious, etc., organization. The store can deduct \$10,000 and thus save \$4,800 even though it gets its purchase price back in full.

Checks made out to charity may not be proof of deduction

The Treasury says that cancelled checks to churches, schools and other charitable organizations will not be automatic proof of a charitable deduction. Even if he has a cancelled check, a contributor whose return is examined may have to back up his deduction by furnishing a statement from the charitable organization showing the date, purpose and amount of the contribution.

The principal reason is to cut down on claims of a full deduction for payments which are in whole or part for a non-charitable purpose. For example, if a person pays \$100 for benefit tickets which are normally worth \$50, his contribution deduction is only \$50; if a person pays \$2,500 for an all-expense trip worth \$1,500, only \$1,000 is deductible. The Treasury wants to make sure that only \$50 or \$1,000 is deducted, not the full amount of the check.

Pledge of contribution not enough for deduction

Contributions by individuals are deductible only if actually paid during the taxable year. This applies to both cash- and accrual-basis individuals. A pledge to contribute, without actual payment, will not be deductible.

Observation: A charitable contribution is considered paid in the year the check is put in the mails (assuming it doesn't "bounce").

Corporations: Cash-basis corporations follow the same rule as individuals. However, an accrual-basis corporation can get a deduction this year for payments made on or before the 15th day of the 3rd month following the close of the taxable year — if the contribution was authorized by the board of directors during this year.

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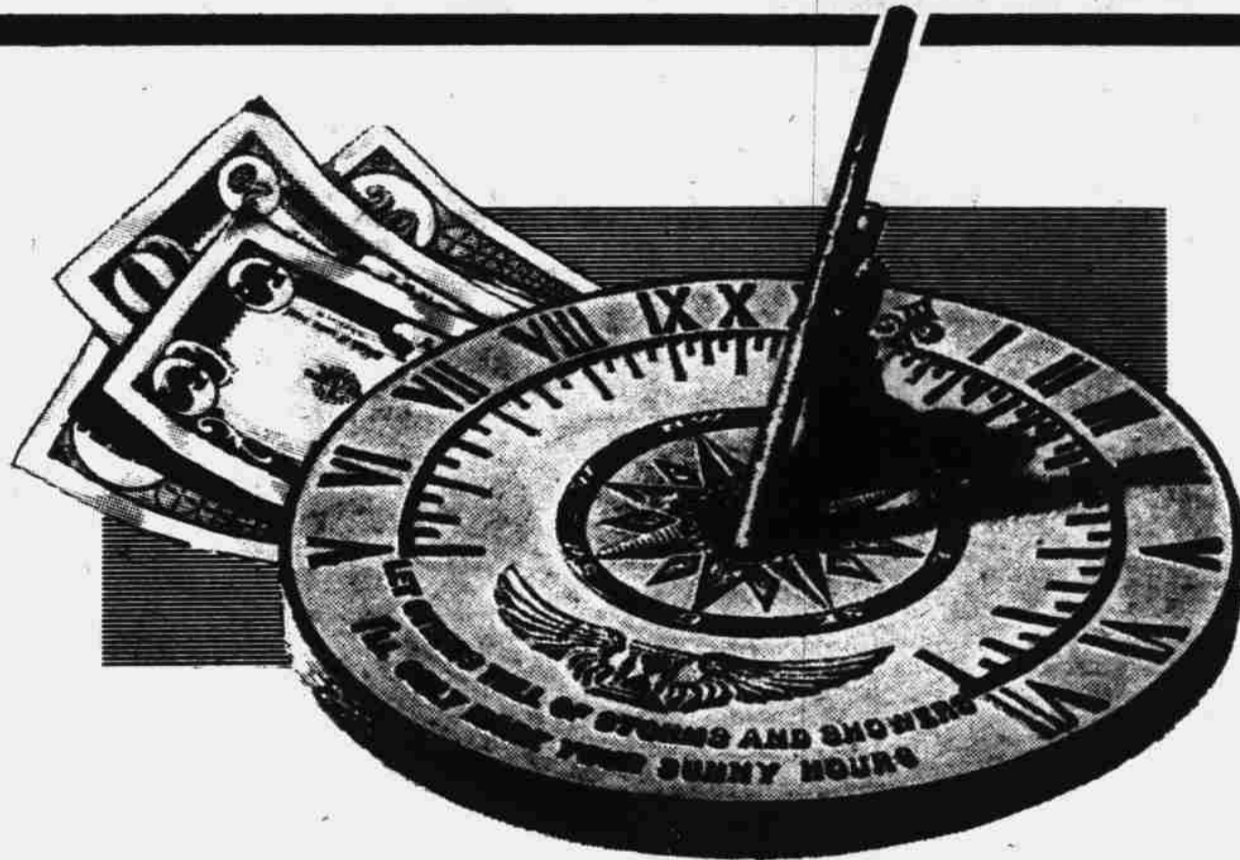
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