



INDEPENDENT SECTOR
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TAX TIPS FOR DONORS

How New Tax Rules¹ Affect Your Charitable Contributions

On August 17, 2006, President Bush signed into law pension reform legislation that includes a package of charitable giving incentives and safeguard measures. See below for information on how these changes will affect what you can claim as a deduction for your charitable contributions and what your responsibilities are as a donor. Also see guidance posted on the [IRS website](#) on new rules for donors.

***Note:** The following information is intended to provide general guidance about the new law and is not a substitute for professional counsel. Consult your tax or legal advisor for professional guidance.*

IRA Rollover

Effective immediately, taxpayers who are 70½ and older may make contributions totaling up to \$100,000 directly to a public charity from a traditional Individual Retirement Account or Roth IRA without having to count the donation as taxable income. Under prior law, taxpayers were required to include all withdrawals from traditional IRAs or other retirement accounts in their taxable income. Contributions to supporting organizations, donor-advised funds, and to private foundations, except in narrow circumstances, do not qualify for the new enhanced deduction. See [Independent Sector's website](#) for more information on the IRA charitable rollover.

The provision is only in effect until December 31, 2007. Interested taxpayers should consult their tax advisors for more information.

Cash Contributions

Effective January 1, 2007*, taxpayers who itemize deductions on their annual income tax returns must now have a bank record or a written communication from the charity, such as a receipt or letter, to support deductions for all cash contributions. This acknowledgement must include the name of the charity, the date of the contribution, and the amount of the contribution to support deductions for all cash contributions. Taxpayers will no longer be able to satisfy this requirement with their own written records such as a contemporaneous diary noting donations.

**This provision may take effect sooner for individuals whose tax year does not follow the calendar year. Consult your tax or legal advisor for professional guidance.*

Contributions of Clothing and Household Items

Effective immediately, taxpayers who itemize deductions on their annual income tax can only claim deductions for clothing and household items donated to charity if the items are in good used condition or better. The Treasury Secretary may prohibit deductions for any item with minimal monetary value, such as used socks or undergarments. Donors who contribute a single piece of

¹ The Pension Reform Law, Public Law No: 109-280

clothing or a household item for which a deduction of more than \$500 is claimed are required to file a qualified appraisal of the donated item with their tax returns.

The new rules supplement earlier law, which requires that taxpayers who claim deductions for non-cash contributions totaling more than \$500 submit a copy of IRS Form 8283, *Noncash Charitable Contributions*, with their tax returns; and that taxpayers submit a qualified appraisal for non-cash contributions valued at more than \$5,000.

The new provision does not apply to donations of jewelry and gems, collections, paintings, antiques, and other objects of art, which are subject to specific rules and regulations. For further information about these types of donations, see IRS publication 561, [Determining the Value of Donated Property](#).

Contributions of Property for Conservation Purposes

Effective immediately, taxpayers who donate property for conservation purposes can deduct the value of the property up to 50 percent of their adjusted gross income. Qualifying farmers and ranchers who donate land for conservation purposes may deduct up to 100 percent of their annual adjusted gross income so long as the land remains available for agricultural or livestock production purposes. Donors may carry-forward the excess value of the qualified conservation contribution for up to 15 years (10 years longer than previous requirements). The new rules apply to contributions made during 2006 and 2007.

For additional information, visit the Land Trust Alliance's [website](#).

Contributions of Façade/Conservation Easements

Effective immediately, taxpayers who contribute façade/conservation easements to buildings located in a registered historic district are required to preserve the entire exterior of the building (e.g. front, sides, rear, and height) and are prohibited from changing or altering the building's exterior in a way inconsistent with its historical character. Also, the donor and charity must enter into a written agreement specifying that the charity is (a) a qualified public charity with a purpose of environmental protection or historic preservation; and (b) that the charity has the commitment and resources to manage and enforce the easement restrictions. Donors claiming the deduction must file with their tax returns certain documentation including a qualified appraisal of the donated façade/conservation easement, photographs of the building's exterior, and descriptions of any restrictions on the development of the building such as zoning ordinances. For contributions made after February 13, 2007, donors claiming a deduction in excess of \$10,000 must pay a \$500 filing fee to the IRS.

For additional information, visit the Land Trust Alliance's [website](#).

Contributions of Taxidermy

Effective immediately, taxpayers who donate taxidermy property will only be able to claim a charitable deduction equal to the lesser of the donor's basis in the property or the fair market value of the property. The basis value may only include the direct costs of preparing, stuffing, and mounting the animal.

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Contributions to Donor-Advised Funds

Effective February 14, 2007, taxpayers claiming a deduction for gifts to a donor-advised fund must obtain a written receipt from the fund's sponsoring organization indicating that the organization has exclusive legal control over the contributed funds. Also, taxpayers will not be permitted to claim a deduction for gifts to a donor-advised fund maintained by a Type III supporting organization unless the Type III is "functionally integrated" with its supported organizations.

For additional guidance, visit the Council on Foundation's [website](#).

Additional rules enacted as part of the pension reform bill include enhanced requirements for appraisals and appraisers, strengthened taxpayer penalties for inaccurate valuation statements, and other requirements for non-cash contributions. Consult your tax or legal advisor for further guidance.

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