Charitable Contributions Scams - What You Need to Know

We want to help you protect yourself from charitable contribution scams that could result in denied deductions and potential penalties. Here are the key warning signs and requirements you should know:

Verify the Organization First:

Before making any donation, confirm the organization is qualified to receive tax-deductible contributions. You can verify this through the IRS Tax Exempt Organization Search tool at www.irs.gov/charities-non-profits/search-for-tax-exempt-organizations or by calling the IRS at 877-829-5500. Be aware that organizations can lose their tax-exempt status if they fail to file required annual reports for three consecutive years, and donations made during a revocation period are only deductible if the organization's tax-exempt status is retroactively reinstated.

Fake Charities:

Scammers often create fake charities with names that sound similar to well-known legitimate organizations. They may use high-pressure tactics, refuse to provide detailed information about their programs, or be unwilling to provide documentation of their tax-exempt status. Always verify an organization's legitimacy before donating, especially if you're contacted unexpectedly by phone, email, or social media. Remember that legitimate charities don't typically demand immediate payment or insist on specific payment methods like gift cards or wire transfers.

Required Documentation:

For any donation of $250 or more, you must obtain a written acknowledgement from the charitable organization. This acknowledgement must be received by the earlier of the date you file your return or the due date of your return, including extensions. If a charity refuses or delays providing this documentation, consider it a red flag.

For donations over $75 where you receive something in return (like event tickets or merchandise), the organization must provide a statement showing the value of what you received. Your deduction must be reduced by that value.

Non-Cash Charitable Contribution Schemes:

Be especially cautious with noncash contributions, as these are common targets for scams. Some fraudulent organizations encourage donors to overvalue noncash contributions. For property donations exceeding $5,000, you must obtain a qualified appraisal. This is especially important for cryptocurrency donations, which are treated as noncash donations. If you donate cryptocurrency valued at more than $5,000 and use exchange values instead of obtaining a qualified appraisal, the IRS will deny the entire deduction with no reasonable-cause exception.

For all noncash contributions, you need a receipt from the organization showing the name of the organization, date and location of contribution, and a reasonably detailed description of the property donated, along with documentation of fair market value and the method used to determine it.

This information is provided to you by Arrowhead Tax Service. We make every effort to provide honest and accurate tax information. Please use your discretion before making any decisions based on the information provided, every tax situation is different. If you have any questions, please visit our office or call us at 937-543-5770.