Tips for Tracking Charitable Donations

Proper recordkeeping for charitable contributions is essential for claiming tax deductions. Here are key tips to help your clients maintain accurate records throughout the year.

Understand the Documentation Thresholds:
The IRS has specific requirements based on contribution amounts. For cash donations under $250, clients need a bank record (canceled check, bank statement, or credit card statement) showing the organization's name, date, and amount, OR a receipt from the charity, OR a payroll deduction record. For donations of $250 to $500, they also need written acknowledgement from the charity showing the date, amount, and whether any goods or services were provided.

Get Written Acknowledgements Before Filing:
Timing matters. Clients must receive required written acknowledgements from charities by the earlier of their filing date or the return's due date, including extensions. Courts have consistently denied deductions when taxpayers obtained acknowledgements after filing, even if the charity later provided the documentation.

Track Noncash Donations Carefully:
For noncash contributions, clients need a receipt showing the organization's name, date and location of contribution, and a detailed description of the property donated. They must also document the fair market value and the method used to determine it. When dropping items at unattended sites, a receipt isn't required, but they still need to record the organization's name, date, and property description.

Verify the Organization's Qualified Status:
Before donating, confirm the organization is eligible to receive tax-deductible contributions. Clients can ask the organization directly for verification, use the IRS Tax Exempt Organization Search tool at https://apps.irs.gov/app/eos/, or call the IRS at 877-829-5500.

Don't Combine Separate Contributions:
When determining documentation requirements for cash contributions, each separate donation stands alone. However, for noncash contributions, clients should combine claimed deductions of all similar items to determine if they meet the $501 or greater threshold.

Watch for Part-Contribution, Part-Purchase Situations:
When a donation over $75 is partly a contribution and partly for goods or services, the charity must provide a written statement estimating the value of goods or services received. This applies even if the deductible portion is less than $75, as long as the total payment exceeds $75.

By following these guidelines and maintaining organized records throughout the year, your clients will be well-prepared to substantiate their charitable deductions and avoid potential IRS challenges.

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.