How to Make Charitable Donations so as not to Attract an Audit Flag

Apparently, one of the best reasons to give a charitable donation is because when you give, you actually get something in return for your good deeds. Simply knowing that you have made a difference in someone else's life gives a general good feeling. On the contrary, since charitable contributions are in fact deductible, the IRS pays attention. In order to receive these deductions, you literally have to jump through hoops first. In fact, as of January 1, 2007, new IRS rules overseeing charitable donations actually require more documentation than ever before. In the end, people still continue to donate despite the added requirements concerning this endeavor.

Every dollar you donate translates to a certain saving, which is equal to your marginal tax bracket. For instance, if you donated $1,000 and you are in the 25% or 35% tax level bracket, you will be entitled to a savings of $250 or $350, respectively. Your donation will just be equal to $650, as in the case of the 35% tax bracket. Unfortunately, there are limits to the amount of savings that you can get. You'll be subject to the pertinent deduction limits if your total contributions within a year is more than 20% of your adjusted gross income (AGI). Once again, the extent of the limits will be dependent on your specific case. Often, the rules concerning donations could get complicated and ambiguous that it will lead to audit flags or even an IRS problem.

In an instance where your adjusted gross income is $100,000 and you do not spend any money, you end up with a considerable amount of money to simply contribute to a fully accredited non-profit or charity. Here, you can only deduct $50,000, which is 50% of your AGI.

The examples above are only applicable to donations made to fully-accredited institutions. You may also take advantage of deductions equivalent to the time and effort you've invested in volunteering to charitable works. But deductions cannot be claimed for donations given to specific individuals or to those who simply asked for your help.

Smart givers never sell their stocks and simply donate the cash equivalent. Wise taxpayers do not hand over straight money, particularly when they can give stock or securities that have appreciated because doing so helps them avoid paying any tax on the income earned from the appreciation. In fact, if you've owned a security or stock for over one year, you can actually subtract the full-market price of that item and yes, without paying tax on the appreciation. For example, if you bought 1,000 shares of common stock in a corporation two years ago at $14 for each share, and on today's market it's actually worth $20 for each share, if you donated the actual shares of stock to charity, then you could deduct the full $20,000 and not pay taxes on the gained $6,000.

As far as deducting the value of items that you donate to a charity is concerned, you are allowed to deduct the wholesale and fair-market value or worth of old equipment, furniture, clothes, etc. On the other hand, this stipulation has a catch. The Pension Protection Act of 2006 stipulates that to be able to make deductions on contributions of household items, these should at least be in good condition, or better. The term 'good' was not operationally defined but if you want to avoid future IRS problems, might as well see to it that you meet this criterion.