## Tis The Season To Be...

Philanthropic. Tra la la la la la la la la.

It is the end of 2005 and time to start looking at year-end income tax planning. One way to reduce your income tax liability is to make charitable contributions. This “feel good” strategy works for two reasons: 1) you help a worthy cause; and 2) generally your contributions qualify for an income tax deduction.

Typically, individuals contribute cash or personal property (i.e. furniture, clothing, household items, etc.) to charity, but most any asset may be contributed so long as it is accepted by the charity. In other words, before a charity accepts an asset that is difficult to manage (i.e. undeveloped real property, partnership interests, etc.), the asset’s market will be researched to ensure that it can be converted into a useable asset (cash or an income-producing asset) within a reasonable time.

For a contribution to be deductible, the charitable organization must be qualified as such by the Internal Revenue Service. Just because a cause is worthy does not translate into a deductible contribution. For instance, organizations that solicit contributions via the telephone are not necessarily organizations qualified by the IRS – even if they tell you they are! You must research the organization on your own. The IRS lists every qualified charitable organization in Publication 78, which can be accessed online at www.irs.gov. Also, to deduct a charitable contribution, you must be able to substantiate the value and items donated.

The manner in which you make contributions can vary as well. You may give assets directly to a charity or create an entity (i.e. a trust or family limited partnership) from which a charity will benefit. You may also contribute money to a pooled income fund or a charitable endowment fund. A pooled income fund is a collection of money contributed to and managed by a particular charity. The charitable endowment fund is an account you set up from which distributions are made to one or more charities in any given year according to your instructions. And like any other contribution, you have lost use of the money.

This time of year my elves are busy sifting through the mail received from charities to determine which will receive part of the Kaplan charity budget. [Hey, my elves are just different than yours!]  So don't be a Scrooge this holiday - donate and deduct!

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