

## ACCELERATED TAX DEDUCTION FOR HAITI EARTHQUAKE RELIEF

The haunting images of destruction and moving stories of rescue have encouraged Americans to give generously to help their neighbors in Haiti recover from the January 12, 2010 earthquake. To encourage donations to charitable organizations working in Haiti, Congress recently passed, and President Barack Obama signed into law, a special measure making your monetary contributions tax deductible in 2009 even though they are made in 2010. The new law gives you flexibility in deciding when to claim a deduction for your early contributions.

**Accelerated deduction.** Typically, if you file an itemized individual federal return and you want to deduct your charitable contributions, you can only deduct the contributions you made in that tax year. The earthquake hit Haiti on January 12, 2010. Under the normal rules, charitable contributions made to help Haiti would be deductible when taxpayers file their 2010 returns in 2011. The new law makes a special and temporary exception for Haiti relief.

Under the new law, you can treat a contribution made to help Haiti after January 11, 2010 and before March 1, 2010 as if made on December 31, 2009. You can decide whether to deduct your 2010 Haiti contribution on your 2009 return or on your 2010 return. However, you cannot deduct the same Haiti contribution on both your 2009 and 2010 returns. You can, however, allocate multiple donations to more than one year. Of course, to take a charitable deduction of any kind, you must opt to itemize your deductions rather than take the standard deduction.

**Monetary donations.** Your contribution must be monetary to qualify under the new law. You can donate cash or make a donation by check or credit card. Property that is convertible into cash, such as marketable securities, however, is not eligible for this special treatment. Similarly, medical supplies, food and other items of property do not qualify for the accelerated deduction.

Currently, most charities are requesting monetary donations to help the earthquake victims. They use the funds to purchase relief items, such as food, medical supplies and emergency housing. If you want to make a non-cash contribution, make sure the charity will accept it. You will also want to contact our office and we can explain the appropriate tax treatment. Non-cash contributions are subject to special rules. For example, donations of food must be used only for the care of the ill, needy or infants.

**Limits on deductions.** The tax law imposes a 50 percent limit on the total of all charitable contributions you make during the year. Your deduction cannot be more than 50 percent of your adjusted gross income (AGI) for the year. You can carry over any contributions you are not able to deduct for one year because of the limit. The new law does not raise or remove the 50 percent limit for 2009 or 2010. There are other special limits, for example limits on gifts of capital gain property and qualified conservation contributions. Please contact our office and we can discuss these limits in more detail.

Another provision in the tax law limits certain itemized deductions, including contributions to charity, for higher income individuals. For 2009, the limitation is reduced by two-thirds. For 2010, the limitation is reduced to zero but this treatment is only available for 2010. Depending on your income and tax strategy, you may find it more valuable to deduct your contributions to Haiti earthquake relief when you file your 2010 return in 2011 rather than taking the deduction on your 2009 return filed in 2010.

**Qualified charities.** Contributions to domestic, tax-exempt, charitable organizations that provide assistance to individuals in foreign lands qualify as tax-deductible contributions for federal income tax purposes, provided that the U.S. organization has full control and discretion over the uses of such funds. Contributions to foreign organizations generally are not deductible. Additionally, contributions to benefit specific individuals or families are also not deductible.

For purposes of the accelerated deduction, contributions must be made specifically for relief of victims in areas affected by the January 12 earthquake. You should ensure that your contribution goes to a qualified charity. If you have a specific charity in mind, our office can tell you if it is a qualified charity for federal income tax purposes.

**Documentation.** The IRS has very strict rules about substantiating charitable contributions. To deduct any charitable donation of money, regardless of amount, you must have a bank record or a written communication from the charity showing the name of the charity and the date and amount of the contribution. For any contribution of \$250 or more (including contributions of cash or property), you must obtain and keep in your records a contemporaneous written acknowledgment from the qualified charitable organization indicating the amount of the cash and a description of any property contributed and whether the organization is provided any goods or services in exchange for the gift.

The new law allows one additional method of substantiation. If you make a donation by texting a contribution to a charity, your telephone bill can provide the required documentation. Your telephone bill must show the name of the charitable organization, the date of the contribution and the amount of the contribution.

**IRS disaster designation.** Shortly after the earthquake, the IRS designated it as a "qualified disaster for federal tax purposes." This means that recipients of qualified disaster relief payments may exclude those payments from income on their tax returns. Additionally, the IRS is allowing employer-sponsored private foundations to assist victims in Haiti without affecting their tax-exempt status.

**Scams.** Tragedies not only bring out the best in people, they also sadly encourage fraud. The Haiti earthquake is no exception. First, be an educated donor. Before you make a donation, make sure the charity is legitimate. Many reputable and well known U.S. charities are working day and night to help Haiti.

Be wary about giving out your personal information, such as your Social Security number. Con artists can use your personal and financial information for identity theft. Be especially cautious of emails asking for donations. Some phony charities use names that sound or look like those of respected, legitimate organizations. If you are not sure that a charity is legitimate, call our office or call the Better Business Bureau.

If you have any questions about the accelerated tax deduction or charitable contributions in general, please contact our office.