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Tax Newsletter

Giving Charitable Gifts With Strings Attached
Tax rules for quid pro quo contributions

If you make a donation to a charity, you may get something back in return. What are the tax consequences for itemizers? It depends on the fair market value (FMV) of the benefit you receive. The IRS has provided guidelines for these “quid pro quo contributions.”

Background: A quid pro quo contribution occurs when an individual makes a charitable donation that is partly for goods or services. The amount attributable to the FMV of the goods or services is nondeductible. For example, if you give a charity $100 in exchange for a concert ticket worth $40, your deduction is limited to $60.

Note that you must obtain a written disclosure statement for amounts above $75, even if the deductible amount is less than $75, as in our example above. The disclosure agreement must include the pertinent information about the donation and the FMV of the benefit received in return.

However, a disclosure statement is not required if you receive items of “insubstantial value” from a charity, like a coffee mug with the charity’s logo, or an intangible religious benefit.

The charitable organization can use any reasonable method to estimate the FMV of goods or services it provided to a donor, as long as it is applied in good faith. It may estimate the FMV of goods or services that generally are not commercially available by using the FMV of similar or comparable goods or services. Goods or services may be similar or comparable even if they do not have the unique qualities of the goods or services being valued.

The IRS offers the following three examples involving quid pro contributions.

Example 1: A charity provides a one-hour tennis lesson with a tennis professional for the first $500 payment it receives. The tennis professional provides one-hour lessons on a commercial basis for $100. A good faith estimate of the lesson's FMV is $100.

Example 2: For a payment of $50,000, a museum allows a donor to hold a private event in a room of the museum. A good faith estimate of the FMV of this right can be made by using the cost of renting a hotel ballroom with a capacity, amenities and atmosphere comparable to the museum room, even though the hotel ballroom lacks the unique art displayed in the museum room. If the hotel ballroom rents for $2,500, a good faith estimate of the FMV of the right to hold the event in the museum is $2,500.

Example 3: If a donor pays $1,000, a charity provides an evening tour of a museum conducted by a well-known artist. The artist does not provide tours on a commercial basis. Tours of the museum normally are free to the public. A good faith estimate of the FMV of the evening museum tour is $0 even though the artist conducts it.

The usual rules for charitable contributions still apply. Thus, you can deduct amounts only if you itemize.

Caution: Other situations may be more complicated. If you have any questions, contact your professional tax advisor.

Who Says You Can't Fight City Hall?
Appealing for property tax reduction

It seems like the cost of everything from college tuition to a cup of coffee keeps going up. Case in point: Property taxes for homeowners have been steadily rising throughout much of the country. But you do not necessarily have to accept the status quo if you were just informed of a tax hike.

Idea in action: Consider an appeal of your property tax assessment if you think you are on firm ground. If you prevail, you can lower the amount you must fork over to the local taxing authority.

However, do not dawdle. Depending on your location, you may have only 30 days after receiving your current tax bill to initiate an appeal. Keeping that in mind, here are several practical suggestions for strengthening your case.

- Verify the dimensions. Carefully check the property tax notice to see if it accurately states your home's dimensions and features. If it lists more square footage or rooms than you actually have, you may be able to have the value reduced.

- Identify key factors. In some cases, assessors do not even look at your property. They may simply compare descriptions of your home with others nearby that seem to be comparable on their face. But your home may be overvalued due to extenuating issues that set it apart. For example, it could back up to or be near a highway or train track or be in a flood zone.

- Present the comps. This may be the best way you can show that your home is overvalued. Find assessment numbers on homes similar to yours based on aspects such as size, age and of course, location, location, location. The information is available at your local assessor's office or online. If yours stands out as being high, this is your proof.

- Cut to the chase. Once you have determined that your assessment seems high, contact your assessor's office and arrange a meeting, if possible. Bring all relevant information, including photos, data on comps, maps, etc.

- Seek an appeal. Do not immediately throw in the towel if you cannot arrange a meeting or it results in no change. You can still lodge a formal appeal with the local assessment board. Before your appeal, sit in on another public hearing. You will get a sense of what works best and what does not.

- Consider a professional. If you do not have the time or inclination to pursue everything on your own, you might hire a property tax consultant or attorney to do the grunt work. Fees may be charged by contingency (e.g., 25-50% of the amount saved in the first year) or by a flat or hourly rate.

This may be a hassle, but it could save you significant amounts of money over an extended period of time.

Silver tax lining: If you itemize deductions, you can generally write off home property taxes as part of the deduction for state and local tax (SALT) payments, up to an annual limit. Currently, the SALT cap is $10,000 per year.

Breaking Down Tax Barriers at Work
Special deduction for qualified expenses

If you are a small business owner, you may be familiar with the disabled access credit (DAC). Under the DAC rules, a qualified business can claim a credit of up to $5,000 for expenses incurred to meet requirements established by the Americans with Disabilities Act (ADA). For instance, the credit is available for removing barriers that hinder access by disabled individuals.

But that is not the only tax break on the books for removing barriers in the workplace. A small business may also qualify for a special deduction that is separate and apart from the DAC.

Background: The tax law permits a business of any size to deduct up to $15,000 of the costs of removing architectural and transportation barriers for the benefit of disabled people and the elderly. Normally, these costs must be capitalized. In addition, you can add any excess above the $15,000 threshold to your basis for depreciation deduction purposes.

To qualify for the deduction, the barrier removal must meet certain standards under guidelines created by ADA regulations. A few examples of expenses that qualify for the deduction are as follows:

- Providing accessible parking spaces, ramps and curb cuts;
- Installing phones, water fountains and restrooms that are accessible to persons in wheelchairs;
- Hanging signage and symbols of accessibility; and
- Widening walkways to at least 48 inches wide.

However, the deduction cannot be claimed or expenses incurred for new construction, a complete renovation of a facility or public transportation vehicle or for the normal replacement of depreciable property.

The deduction is generally claimed on the tax return for the tax year in which the qualified expenses were paid or incurred. Maintain detailed records to support the deduction. If your business fails to claim the deduction by its tax return due date, it has six months to file an amended return for the year (plus any extensions) to do so.

Be aware that a qualified small business can claim both the DAC and the architectural barrier removal deduction in the same tax year if the requirements for each tax break are met. However, in that case the deduction is limited to the difference between the total expenses and the amount of the credit claimed. For example, if a business incurs $10,000 in expenses qualifying for both the deduction and a $4,000 credit, the deduction is reduced to $6,000.

Final words: The deduction is irrevocable once it is claimed on a return. Consult with your professional tax advisor if you have any further questions.

Five Steps Toward Financial Security
Improve your future outlook

Is the financial road ahead paved with gold or filled with potholes that can wreck your plans—or somewhere in between? Although there are a number of variables, you probably have more control over the eventual outcome than you might think. In particular, the moves you make or fail to make now can have a major impact on your financial future. Here are five important considerations.

1. Maximize your retirement plans. Typically, you should plan on replacing at least 75% of your pre-retirement income when you are no longer working. Where will that income come from in retirement? Most people rely on amounts built up in qualified retirement plans to supplement investment earnings and Social Security benefits. Generally, contributions to such plans like a 401(k) can grow and compound on a tax-deferred basis until distributions are made. In addition, you may benefit from Roth or traditional IRAs, or a combination of the two, to help feather your nest egg.

2. Review your investment mix. Diversification and asset allocation are often the cornerstones of a financial plan. Review your portfolio to see if you have the proper mix of investments appropriate for your stage of life, your tolerance for risk and your objectives. Frequently, an investor in their middle age will concentrate heavily on the equities markets. Then, as retirement looms, the investor will shift to a more conservative allocation between stocks, bonds and short-term investments to minimize the impact of volatility.

3. Set your priorities. It is more than likely that you have to juggle several financial goals at the same time. For instance, you may be doling out money for a child's college education while scrimping and saving for retirement. Establish an order that makes the most sense for your personal situation. Once you have, determine if you are still on track to meet the main objectives and react accordingly. This may require you to cut down on luxuries or change your lifestyle slightly—say, skipping an exotic vacation to contribute more for retirement—but it is generally worthwhile in the long run.

4. Create a "rainy day fund." This advice is often dispensed by financial professionals but is seldom heeded. What would you (or your spouse, if married) do if you unexpectedly lost your job or had to deplete your funds for an emergency? The conventional wisdom is to secure enough in the way of assets to sustain your current lifestyle for a period of at least three to six months. The idea is to give yourself enough flexibility to cope with unforeseen emergencies without giving up on your goals or taking on crushing debt.

5. Evaluate your insurance needs. Finally, do not forget about obtaining sufficient protection to sustain your family through middle age and a lengthy retirement. This may cover the gamut from life insurance, health insurance, disability income insurance and long-term care insurance. By taking out insurance policies commensurate with your needs, you can avoid a financial disaster at a reasonable cost.

Facts and Figures
Timely points of particular interest

IRS Collections—The IRS is filling its coffers with payments from the upper crust. As part of continuing compliance efforts under the Inflation Reduction Act (IRA), the agency announced that is has collected more than $1 billion in overdue taxes from high-income taxpayers since last fall. The collection efforts targeted individuals who earn more than $1 million a year and owed the IRS more than $250,000 each.

Consumer Alert—The IRS is warning taxpayers about inaccurate tax advice that has been circulating on social media sites. In brief, promoters encourage false claims for a "Self-Employment Tax Credit" with payments of up to $32,000. This credit is supposedly available to self-employed individuals and workers in the gig economy, but it does not exist. Lesson to be learned: Rely on tax professionals for tax advice.

New RMD Regs—The IRS also released new final regulations on required minimum distributions (RMDs) from qualified retirement plans and IRAs. The new regs address issues raised by recent legislation. Notably, the IRS says that beneficiaries of inherited accounts must continue to take annual RMDs even though they technically now have ten years to empty out an account. We will have more details in the next issue.

Texas Disaster Extension – The Internal Revenue Service granted disaster relief for individuals and businesses in certain Texas counties affected by Hurricane Beryl that began on July 5, 2024. Individuals who live, and businesses whose principal place of business is located, in the covered disaster area now have until February 3, 2025 to file various federal individual and business tax returns and to make certain tax payments. Detailed information is available in the Tax Insights section of our website under the Resources tab.

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