

## THIS MONTH:

- ◆ **Tips On Deducting Charitable Donations**
- ◆ **Do I need a New EIN?**
- ◆ **Increased Withholding May Avoid Estimated Tax Penalty**



### Tips On Deducting Charitable Donations

- 1. The organization must qualify:** Charitable contributions must be made to “qualified organizations” as provided by IRS Publication 526. Remember, you can’t deduct donations to specific individuals or political organizations.
- 2. You must itemize:** Charitable contributions are deductible only if you itemize deductions using Form 1040, Schedule A.
- 3. What you can deduct:** You can deduct cash contributions and the fair market value of most property you donate. Clothing and household items must be in “good used condition or better” to be deductible.
- 4. Receive something in return?:** If your contribution entitles you to receive merchandise, goods, or services, you can deduct the amount that exceeds the fair market value of the benefit received.

**5. Pledges and payments:** Only contributions actually made during the tax year are deductible. For example, if you pledged \$500 in May but paid the charity only \$200 by year end, you can only deduct \$200.

**6. Recordkeeping:** You must keep records of the contribution. Save a cancelled check, bank or credit card statement, or a dated/ written receipt from the charity with the amount of the contribution. For text message donations, keep your phone bill showing the receiving organization, the date, and the amount.

**7. Donations made near year end:** Include credit card charges and payments by check in the year you donate to the charity, even if you don’t pay the credit card bill or draft from your bank account until the next year.

**8. Large donations:** For contributions of \$250 or more, you need more than a bank record. You need a dated/written receipt from the charity. Stating the dollar amount donated and whether the organization provided goods or services in exchange for the gift. If you donated large items, the receipt must include a description of the items and a good faith estimate of value. For items valued at \$500 or more you must complete a Form 8283, *Noncash Charitable Contributions*, and attach the form to your return. To claim deductions for a contributions of noncash property worth more than \$5,000. You must obtain an appraisal and complete Section B of Form 8283 with your return.

### Questions?

Contact Padgett Business Services East Bay

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## Do I need a New EIN?

**Sole Proprietors:** You will need a new EIN if you are subject to a bankruptcy, if you incorporate, take partners or operate as a partnership, or if you purchase or inherit an existing business that you operate as a sole proprietorship. You will not need a new EIN if you change the name of your business, change your location and/or add other locations, or if you operate multiple businesses.

**Corporations:** You will need a new EIN if the corporation receives a new charter from the secretary of state, if you become a subsidiary of a corporation, you change to a partnership or a sole proprietorship, or if a new corporation is created after a statutory merger. You will not need a new EIN if you are a division of a corporation, you are the surviving corporation using the existing EIN after a corporate merger, the corporation declares bankruptcy, the corporate name or location changes, or a corporation chooses to be taxed as an S corporation.

**Partnerships:** You will need a new EIN if you incorporate, your partnership is taken over by one of the partners and is operated as a sole proprietorship, or you end an old partnership and begin a new one. You will not need a new EIN if the partnership declares bankruptcy, the partnership name changes, you change or add locations of the partnership, a new partnership is formed as a result of the termination of a partnership under IRC section 708(b)(1)(B) or 50 percent or more of the ownership of the partnership (measured by interests in capital and profits) changes hands within a twelve-month period.



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## Increased Withholding May Avoid Estimated Tax Penalty

As the year comes to a close, you may find that the amount of tax withheld from your salary or paid in estimated tax vouchers isn't enough to cover your required estimated tax payments. Increasing your 4<sup>th</sup> quarter estimated tax payment will not avoid penalties, since these payments are applied in installments. You may avoid the penalty by increasing the income tax withheld by your employer. This is because the heavy year-end withholding will be treated as paid equally over the four installment due dates.

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PADGETT BUSINESS SERVICES® is dedicated to meeting the tax, government compliance, profit & financial reporting and payroll needs of businesses with fewer than 20 employees in the retail and service sector of the economy. This publication suggests general business planning concepts that may be appropriate in certain situations. It is designed to provide complete and accurate information to the reader. However, because of the complexities of the tax law and the necessity of determining whether the material discussed herein is appropriate to your business, it is important you seek advice from your Padgett office before implementing any of the concepts suggested in this newsletter.

**PENALTY NOTICE:** As required by U.S. Treasury regulations, you are advised that any written tax advice contained herein was not written or intended to be used (and cannot be used) by any taxpayer for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code.