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Tax Planning Alert

Charitable Contributions for Tsunami Relief

The new law signed by the president January 7th 2005 provides an unprecedented incentive for donations to help tsunami victims. The legislation permits taxpayers to claim charitable deductions on 2004 income tax returns for contributions made in January 2005.

Here are a few highlights and commentaries:

- *Eligible Donors.* Individuals and all entities are covered by the legislation.
- *Cash Contributions.* The new law applies only to *cash donations* designated for Tsunami relief. The Internal Revenue Service has not defined cash for this purpose. An IRS news release makes it clear that a check would qualify. Most likely, contributions charged to credit cards would also be acceptable.
- *Timing is Everything.* Checks must be mailed by January 31, 2005 and credit cards must be charged no later than January 31, 2005 to qualify for the special treatment.
- *Qualifying Charities.* The IRS has issued a news release with a link to a website containing a non-exclusive list of dozens of religious and secular organizations offering Tsunami relief. The website is www.usaid.gov/locations/asia_near_east/tsunami. There is no clear guidance whether contributions to donor-advised funds would qualify. Accordingly, we do not recommend donor-advised funds as a philanthropic vehicle to obtain retroactive income tax benefits under the new law.
- *Foreign Organizations.* It is important to note that donations must be made to US-based charities to claim an income tax deduction.
- *2004 or 2005.* Taxpayers can elect to claim January 2005 contributions as 2004 or 2005 deductions. The new law creates a unique opportunity for retroactive yearend income tax planning.
- *State Tax Returns.* Many states follow federal rules and allow charitable income tax deductions. It seems exceedingly unlikely that any state would enact legislation limiting or eliminating accelerated tax benefits for the disaster relief donations.
- *Recordkeeping.* The IRS suggests that a notation in the memo field of the check be made to indicate contributions for tsunami relief. We urge you to keep good records and send us summaries and acknowledgements for January 2005 donations as soon as they become available.