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Ken Berry, JD • Oct. 26, 2014

[This is part of a series of articles designed to maximize tax benefits and minimize tax pitfalls at the end of the year.]

At the end of the year, socially-conscious clients can boost their deductions, and thereby lower their tax bills, by giving a little extra to the charities of their choice. That's still a sensible tax strategy as 2014 draws to a close. But a recent tax law change may give some upper-income individuals a moment's pause before they reach into their pockets.

Before we go any further, clients should be apprised of the strict recordkeeping rules in this area, such as the requirement for written communications from qualified charitable organizations for any monetary gifts. To deduct a charitable contribution of $250 or more, a taxpayer must obtain a written acknowledgment from the charity, including the amount of the donation, a description of any non-cash property that was contributed and the value of any goods or services provided. Advise clients that they must obtain these acknowledgements by the earlier of the date the tax return is filed or its due date (plus any extensions).

For contributions of more than $75 where a benefit is received in exchange for a contribution – such as a dinner or prizes at a fundraiser — the charity must provide a good faith estimate of the goods or services received and the amount of payment exceeding the value of the benefit. The deductible amount is limited to the difference between the payment and the value.

Other special rules apply to charitable contributions of property. For instance, you're

market value of donated property held longer than one year. Thus, there 's no tax on the appreciation in value—ever.

Keeping all these rules in mind, a taxpayer may make a charitable contribution as late as December 31 and still deduct the gift on his or her 2014 tax return. This includes gifts charged by credit card online and posted in time – even if the taxpayer doesn't actually pay off the credit charge until next year. But now there's an extra tax wrinkle to consider.

Under the "Pease rule," most itemized deductions – including those claimed for charitable donations – are reduced by 3% of the amount above an annual threshold (but no more than 80% overall). The Pease rule went into effect in 2013. For 2014, the threshold is $254,200 of AGI for single filers and $305,050 for joint filers.

Practically speaking, this rule will likely have minimal or no impact on most taxpayers at year-end, but it's still a consideration for some high-end clients. Depending on their situation, they might take pains to lower their AGI or even postpone large charitable gifts to 2015 if they expect to fall under the Pease rule threshold next year. In any event, meet with clients to discuss ways to maximize deductions with the minimum tax damage.

Income Tax