



Q&A: An expert talks about where, when and how to give

By [Brett Johnson](#)

It's the individual — not necessarily the corporation — that Michael Karu sees with most interest in the tax side of charitable gifts.

Karu, a member of the Livingston-based Levine, Jacobs & Company, said that's because of the limitation that a corporation can only deduct 10 percent of its profits.

If a company is incredibly profitable, that's not a problem. But for a company that breaks even — regardless of whether it has sizable reserves — there's not much tax incentive to be had.

In those cases, the donations will be funneled through the executives or the business owner individually. Individuals only have a 50 percent of income limit on regular cash contributions.

In a question-and-answer session with NJBIZ, Karu explained how he steers those people:

NJBIZ: *When does it make sense for someone to take advantage of tax-powered philanthropy?*

Michael Karu: Here's an example: the single individual who earns \$100,000 is in the 28 percent tax bracket. If that person has mortgage interest, real estate taxes and so on, they know if they write out a check for \$100, they'll save \$28. That's part of it. Now, someone who is only earning \$10,000 wouldn't be able to afford it.

You look at the cash flow; what can you give? And, really, some people are just more philanthropically inclined. That part of it is often decided on a personal level. But on a tax level, it depends on how high your income is.

NJBIZ: *What kind of planning goes into tax-deductible giving on an individual level?*

MK: Appreciated stock is a huge area for tax planning. ... Assume that back in 1980 you bought 100 shares of Apple stock, when it was trading at 15 bucks a share. Today, with all the splits, you probably have 15,000 shares at \$100. You could say, 'I want to make a donation of 100 shares.' At \$100 a share, that would be a \$10,000 donation. And you'd get credit for that amount, even though the cost is (far less).

NJBIZ: *What's one thing you always recommend to clients?*

MK: Batch your gifts. Meaning, if you're planning on making donations to a specific charity, look at what your tax position is for your calendar year 2014 and see if it makes more sense to hold off until 2015.

An easy example: someone who is a W2 employee and knows that in 2015 they're getting a huge bonus based on their 2014 productivity. If they know their tax bracket will increase, they might say that, instead of giving that \$10,000 they planned on giving in 2014, they'll wait a year — when they'll be in the 35 percent tax bracket instead of 25 or 28 percent. That way, the government will be paying a little more of it.

NJBIZ: *Are there other ways to make tax-incentivized donations?*

MK: When you get Vietnam veterans or other groups in the area asking for clothing you can donate, do a little spring cleaning. Give clothes to one of those groups and you can get a tax deduction from it. Granted, it's not at the full cost — maybe it's 20 cents on the dollar of the cost — but even so. One way, it's just sitting in the closet taking up space; the other way, you get a benefit.

NJBIZ: *Have these options been limited or changed over the years?*

MK: Yes. I'm sure that a day does not go by that you don't hear an advertisement about donating your car. Everybody wants your car. The IRS did put in certain pronouncements (at the onset of 2005) on the deductibility on that vehicle donation, so they really did crack down on the abuses in that area. It's no longer just the fair market value of the car, it's what happens to that car once the charity accepts it. If they sell it, you're limited to what they received. Conversely, if they keep it to use for their own purposes, it's still the fair market value.

NJBIZ: *What else do you tell your clients who are considering donations?*

MK: Everybody gets hundreds of requests for money. I have some clients that give \$20 to 100 different charities. Others think that's meaningless and pick just one charity to give much more to. I say that, when you do choose one, you should pick a charity that's meaningful to you. Don't just donate haphazardly. If it comes from the heart, it means more.