1. **What factors must an individual consider before making a charitable gift?**
   A donor needs to consider his charitable objectives and the desired timing of the gift, in addition to the tax consequences of making a charitable donation. The character of the property given, the type of donee, the timing of the contribution, and for inter vivos giving, the taxpayer's adjusted gross income are all factors that can affect the tax consequences of charitable giving.

2. **Define “charitable organization” as detailed in the Internal Revenue Code.**
   - A state, a possession of the United States, or any political subdivision (contribution must be solely for public purposes).
   - A corporation, trust, or community chest, fund, or foundation that is organized in the U.S. and is operated exclusively for:
     - religious, charitable, scientific, literary or educational purposes;
     - fostering national or international amateur sports competition;
     - preventing of cruelty to animals or children.
   - A post or organization of war veterans organized in the United States.
   - A domestic fraternal society, order or association, operating under the lodge system, but only if the contribution is to be used for the purposes listed above.
   - A cemetery company (not deductible if the donation is limited to the maintenance of a specific cemetery plot).

3. **Identify three ways to verify a charitable organization’s qualifying status.**
   - IRS Publication 78
   - [www.guidestar.org](http://www.guidestar.org)

4. **How does a private operating foundation differ from a private nonoperating foundation?**
   Operating foundations spend at least 85% of their adjusted net income on activities engaged in for the active conduct of the exempt purpose. To be a private operating foundation, the foundation must meet an assets test,
endowment test, or support test. If a private foundation does not meet the tests to be classified as operating, then it is classified as a nonoperating foundation.

5. List at least three examples of deductible out-of-pocket expenses related to donating services to a charitable organization.
   - Direct automobile expenses.
   - Support for foster children in excess of payments received, if no profit motive exists.
   - Travel and transportation expenses in connection with attending a convention on behalf of a qualified organization.
   - The cost of uniforms required to be worn while performing the charitable service.

6. If ordinary income property is contributed to a charitable organization, what is the maximum deductible amount?
The deduction for ordinary income property is equal to the fair market value of the property reduced by any ordinary income that would have resulted from a sale. In the event the fair market value is less than the adjusted basis, the deduction is equal to the fair market value of the contributed property.

7. What does it mean for a charity to be a “50% organization?”
If a charity is a 50% organization, then a donor can deduct charitable contributions to that charity up to a limit of 50% of his contribution base. An exception exists for contributions of appreciated capital gain property, which is subject to a 30% of contribution base ceiling.

8. List the factors a donee must consider when electing to deduct the adjusted basis of donated property as opposed to electing to deduct the fair market value of the property.
   - The donor's current and projected adjusted gross income for the next six years.
   - The fair market value of the donated property.
   - The adjusted basis of the donated property.
   - The time value of money.

9. If an individual donates property with a fair market value of $750, what information must the donor provide to the IRS and on what tax form is the information provided?
When an individual makes a donation of property for more than $500 and less than $5,000, the donor must provide information on how and when the property was acquired and its adjusted basis. This information along with the donee’s name and address, and the date of the contribution, must be provided on Form 8283.

10. Why would a donor request a statement of value from the IRS?
A donor would request a statement of value from the IRS to assure himself of the value that the IRS will allow as a charitable deduction. Without the statement of value, the individual is susceptible to the IRS disallowing or disagreeing with his proposed valuation for several years, thereby creating tax penalties and interest on any assessed balance due.

11. If a charitable annuity pays the annuity to the donor, how is the value of the donor's charitable income tax deduction calculated?
The income tax deduction for an individual who donates property in return for a charitable annuity payable to himself is equal to the value of the property contributed less the value of the annuity.
12. **Under what circumstances may the donor of encumbered property, donated in return for a charitable annuity, avoid recognizing the ordinary income and capital gain associated with the annuity in the year of the transfer?**

The donor does not recognize ordinary income or capital gain in the year of the transfer if the annuity is non-assignable and the donor, or his designated survivors’ trust, are the only annuitants.

13. **Which charitable trusts provide the donor with an income tax deduction in the year the property is transferred to the trust?**

- Pooled income fund.
- Charitable Remainder Trust (CRT).
- Charitable Lead Trust (CLT).

Note, not all CLTs will provide an income tax deduction and those that do require that the trust be set up as a grantor trust with trust income flowing to the donor.

14. **Explain how a pooled income fund benefits a donor.**

An individual who donates to a pooled income fund receives a current income tax deduction for the present value of the remainder interest of the fund and an allocation of the trust's income. A pooled income fund is easy for small investors as it does not require trust documents and large creation fees. Also, because a pooled income fund combines the contributions from several individuals into one fund, the fund can be more easily diversified.

15. **How is a Charitable Remainder Annuity Trust (CRAT) less flexible than a Charitable Remainder Unitrust (CRUT)?**

- A CRAT does not allow additional contributions after inception. A CRUT can accept additional contributions.
- A CRUT can limit its income payment to the trust’s net income for the year, and allow for the trust to make up the payment in a year of excess income. A CRAT must make its annuity payment each year, even if the payment requires utilizing the CRAT’s principal.
- The CRAT payment is also a fixed amount, whereas the CRUT payment is a fixed percentage of the trust’s assets. This allows the CRUT payment to vary with the value of the trust’s assets.

16. **If an individual donates the underlying ownership interest of his personal residence to a charity, but retains the right to live in the residence for the remainder of his life, how is the donor’s charitable deduction calculated?**

The donor would have a charitable deduction equal to the present value of the remainder interest - the value of the property less the present value of the right to live in the home for the donor’s life expectancy.

17. **When a donor creates and funds a CLAT under the grantor trust provisions, how is the income of the trust treated for income tax purposes each year?**

If a donor creates and funds a CLAT under the grantor trust provisions, the grantor recognizes all of the trust’s income in his taxable income.

18. **Under what circumstances is a testamentary charitable transfer deductible from a decedent’s adjusted gross estate?**

- The bequest must be mandatory.
- The amount of the bequest must be certain and the asset must be included in the gross estate.
19. How may a testamentary charitable transfer be more beneficial to a donor than an inter vivos charitable transfer?

The charitable transfer of potentially appreciating property is more beneficial at death than during life because the value of the transfer will be greater as more time passes. Also, if an individual is in an estate tax bracket which is higher than their individual income tax rate, more overall tax savings will be generated by a gift at death compared with a gift during life.
MULTIPLE-CHOICE PROBLEMS

1. Which of the following statements is not true?
   
   a. A charitable gift during life can reduce estate taxes.
   b. A charitable gift during life can reduce income taxes.
   c. Only a full, outright donation of property will qualify as a deductible charitable contribution.
   d. The donor of a charitable gift may be required to file a gift tax return including the charitable contribution.

   The correct answer is c.
   
   A donor can transfer an interest in property, other than the full, outright ownership, and receive a charitable deduction. All of the other statements are true statements. Option d is a true statement because the donor of a charitable contribution will have to file a gift tax return and include the charitable transfer if the contribution is a split interest gift, or if the donor made other taxable gifts during the year.

2. Which of the following does not qualify as a charitable organization?
   
   a. The state of Kentucky.
   b. The city of Los Angeles.
   c. A cemetery company organized to maintain cemetery plots in a county.
   d. Republican National Committee.

   The correct answer is d.
   
   Political organizations are not qualifying charitable organizations. The other options are considered qualified charitable organizations. Section 170(c) defines which organizations will qualify for charitable status. They include:
   
   - a State, a possession of the United States, or any political subdivision;
   - a corporation, trust or community chest, fund or foundation that is organized in the U.S. and is operated exclusively for religious, charitable scientific, literary or educational purposes, fostering national or international amateur sports competition, or prevention of cruelty to animals;
   - a post or organization of war veterans organized in the U.S.;
   - a domestic fraternal society, order or association, operating under the lodge system, but only if the contribution is to be used for the purposes listed above;
   - a cemetery company.

3. Terrence contributed $15,000 to a foreign charitable organization. At the time of the contribution, the organization told him that his contribution was tax deductible for income tax purposes. Ignoring any income limitations, how much of the $15,000 contribution is deductible?
   
   a. $0.
   b. $7,500.
   c. $10,000.
   d. $15,000.
The correct answer is a.
Foreign charitable organizations are not qualified charitable organizations and therefore contributions to such organizations do not qualify for a charitable deduction. It is always the responsibility of the donee to determine the deductible status of his contribution.

4. The Organization to Prevent Cruelty to Animals receives contributions from the general public to fund programs to prevent cruelty to animals. Of its total support during the year, 75% of the funds are from contributions from supporting individuals. What type of charity is The Organization to Prevent Cruelty to Animals?
   a. Public Charity.
   b. Private Foundation.
   c. Private Operating Foundation.
   d. Public Nonoperating Charity.

The correct answer is a.
To be classified as a public charity, more than 33% of the organization's support must be from a combination of gifts, grants, contributions, membership fees, and gross receipts from sales in an activity which is not an unrelated trade or business. Also, to be a public charity, not more than 33% of an organization's support can come from the sum of gross investment income plus unrelated business taxable income. Because the information provided tells us that 75% of the organization's support is from individual contributions, The Organization to Prevent Cruelty to Animals passes the first requirement to be classified as a public charity, and the organization must pass the second requirement because we know less than 33% of the contributions are derived from investment income and unrelated business taxable income.

5. Which of the following statements is not correct?
   a. An organization that spends less than 85% of its adjusted net income on activities engaged in for the active conduct of its exempt purpose is a public charity.
   b. Public charities receive broad support from the general public.
   c. An organization that is not a public charity and spends 90% of its adjusted net income on activities engaged in for the active conduct of its exempt purpose is a private operating foundation.
   d. A public charity can receive up to 33% of its support from its gross investment income and its unrelated business taxable income.

The correct answer is a.
Option a describes a private nonoperating foundation not a public charity. All of the other statements are true.

6. Cathy and Mark paid $400 for two tickets to the United Church's annual gala ball. The church determined that the fair market value of each ticket was $100. How much can Cathy and Mark deduct on their income tax return?
   a. $0.
   b. $100.
   c. $200.
   d. $400.
The correct answer is c.
The value of any tangible benefit received in return for a contribution is not deductible. In this case, Cathy and Mark paid $400 for two tickets and received $200 ($100/ticket) in benefit. The difference, $200 ($400-$200), is deductible on their income tax return.

7. Doug graduated from the University of Pittsburgh. Each year, season tickets are sold only to those who make a contribution to the university of $1,000 or more. If Doug contributes $1,000, so that he meets the requirements to purchase season tickets, how much is his deductible contribution for the year?
   a. $0.
   b. $800.
   c. $900.
   d. $1000.
   The correct answer is b.
   For a contribution to a university where the donor receives the right to purchase tickets to athletic events, only 80% of the contribution will be allowed as a charitable contribution. $1,000 x 80% = $800.

8. Connie cooks and delivers meals for the homeless and the elderly at Thanksgiving. Connie spends $200 on food, she drives 300 miles, and she spends 15 hours of her time (valued at $10/hour) completing the charitable service each year. Of these expenses, how much will Connie deduct on her income tax return for the year?
   a. $0.
   b. $200.
   c. $242.
   d. $392.
   The correct answer is c.
   Only the actual money spent on the food and the mileage are deductible expenses. The mileage is deductible at $0.14/mile. The value of Connie's services are not deductible. So, the total deduction for Connie's income tax return is $242 ($200 + 300(0.14)).

9. Chris donated one of his original creation paintings to his alma mater, Backwoods University. His adjusted basis in the artwork was $400 and the fair market value was $150. Chris also contributed 100 shares of XYZ corporation that had an adjusted basis of $50 and a fair market value equal to $1,000 (held long-term). Ignoring the AGI limitations, what is the maximum amount Chris can deduct in relation to these donations?
   a. $200.
   b. $1,150.
   c. $1,300.
   d. $1,400.
CHAPTER 9: CHARITABLE GIVING

The correct answer is b. The painting has a fair market value less than its adjusted basis, and is considered ordinary income property. When the fair market value is less than the adjusted basis, a contribution of ordinary income property is limited to the fair market value ($150). Because Chris created the painting, we do not have to worry about the related use test. The contribution of stock is a contribution of capital gain property and the deductible amount is equal to the fair market value of the stock ($1,000). The total of both items, and the deduction for the year, equals $1,150.

10. Maggie contributed $10,000 to a private nonoperating foundation that has never made any distributions. Maggie also contributed $15,000 to a private operating foundation. Maggie’s AGI for the tax year was $100,000. What is Maggie’s charitable contribution deduction for the year?

a. $10,500.
b. $25,000.
c. $50,000.
d. $100,000.

The correct answer is b. The contribution of the $10,000 to the nonoperating foundation is subject to a 30% AGI limitation, and the contribution to the private operating foundation is subject to a 50% AGI limitation. Neither of the limitation amounts is an issue as the total of the contributions does not exceed either limit. In this case, the total charitable contribution is $25,000, the sum of both contributions.

11. Which of the following is not an issue when considering whether to deduct the adjusted basis or the fair market value of contributed property?

a. The current market rate of interest.
b. The donor’s current and projected adjusted gross income for the 5 years after the contribution.
c. The fair market value of the donated property.
d. The capital gains rate in effect at the time of the transfer.

The correct answer is d. Option d is not an issue when deciding whether to deduct the adjusted basis or the fair market value since the transfer generally does not create a capital gain. All of the other options are issues to consider.

12. Robin contributed $100 to the United Way and $300 to the Church of Good People. Which of the following statements concerning her contribution to the charitable organizations is correct?

a. Robin must file IRS Form 8283.
b. Both the United Way and the Church of Good People are required to send a confirmation of the contribution to Robin.
c. Only the United Way is required to send a confirmation of the contribution to Robin.
d. Only the Church of Good People is required to send a confirmation of the contribution to Robin.

The correct answer is c.
The correct answer is d.
Only when a contribution totals more than $250 is the organization required to provide the donor with a written statement of acknowledgement. So, only the Church of Good People would be required to provide this statement. Form 8283 is only filed when the total of non-cash contributions exceeds $500.

13. Which of the following contributions would require the taxpayer to obtain a statement of value from the IRS?
   a. The taxpayer is never required to obtain a statement of value.
   b. Taxpayer donates art work valued at $150,000 to a private nonoperating foundation.
   c. Taxpayer donates art work valued at $10,000 to a public charity.
   d. Taxpayer donates art work valued at $15,000 to a public charity.

The correct answer is a.
A taxpayer is never required to obtain a statement of value from the IRS. The taxpayer may obtain a statement of value from the IRS if the art work is valued at $50,000 or more.

14. Denis sold a parcel of land to a qualified charitable organization for $10,000. The parcel of land had a fair market value of $100,000 and an adjusted basis of $50,000. What taxable gain must Denis recognize at the time of the contribution?
   a. $0.
   b. $5,000.
   c. $50,000.
   d. $90,000.

The correct answer is b.
Because Denis sold the property at 10% ($10,000/$100,000) of its fair market value, 10% of its adjusted basis offsets the sales proceeds. The capital gain is $5,000, $10,000 - $5,000 = $5,000.

15. Michael transfers $100,000 of stock to a charitable organization in return for a life annuity on his life valued at $43,000. With regards to this transfer, how much is Michael’s charitable deduction?
   a. $0.
   b. $43,000.
   c. $57,000.
   d. $100,000.

The correct answer is c.
When an individual transfers property in exchange for a charitable annuity, the value of the property less the value of the retained annuity interest is the value of the charitable deduction. In this case, $100,000 - $43,000 = $57,000.
16. Which of the following statements regarding life insurance is true?

a. When an individual designates a charitable organization as the beneficiary of his life insurance policy, the individual can deduct the face value of the policy as a charitable contribution on his income tax return.

b. If an individual designates a charitable organization as the beneficiary of his life insurance policy, but retains the right to change the beneficiary designation, the death proceeds of the life insurance policy will be included in his gross estate.

c. If an individual designates a charitable organization as the beneficiary of his life insurance policy, and then dies without changing the beneficiary designation, the death proceeds of the life insurance policy will be included in his taxable estate.

d. Transferring ownership of a life insurance policy to a charitable organization does not qualify for an income tax charitable deduction.

The correct answer is b. Option b is a correct statement. Option a is incorrect as only a transfer of the ownership of a life insurance policy qualifies as a charitable deduction. A simple beneficiary designation will not create a charitable deduction. Option c is incorrect as the life insurance death benefit will be included in the gross estate, but if the decedent dies and the charitable organization is the listed beneficiary, the estate will receive a deduction from the gross estate to arrive at the taxable estate. Option d is incorrect because a transfer of the ownership of a life insurance policy to a charitable organization will qualify for an income tax charitable deduction.

17. Four years ago, Walter created a charitable remainder trust with himself as the income beneficiary and a charity as the remainder beneficiary. In the current year, Walter would like to make an additional contribution to the trust. Which of the following charitable trusts would allow Walter to make an additional contribution during the year?

a. CRAT.

b. CRUT.

c. CRET.

d. CRIT.

The correct answer is b. Only a CRUT allows additional contributions. A CRAT does not allow additional contributions. A CRET and CRIT do not exist.

18. Gillian transfers property to a revocable trust naming herself as the income beneficiary and the United Way as the remainder beneficiary. What type of trust has Gillian created?

a. Revocable living trust.

b. CRAT.

c. CRUT.

d. Pooled income fund.

The correct answer is a. To be a CRAT, CRUT or pooled income fund, the trust would have to be irrevocable. Since it is a revocable trust, it must be a revocable living trust.
19. Todd irrevocably transfers property to a trust over which he retains an annuity payment each year equal to 6% of the initial fair market value of the property transferred to the trust. Todd designates the United Way as the remainder beneficiary. Which of the following statements concerning this transfer is true?

a. Todd can make an additional contribution to the trust in subsequent years.

b. Todd must inform the United Way of their right to the remainder of the trust’s assets.

c. Todd will receive an income tax charitable deduction on his income tax return for the year in which the trust is formed.

d. The United Way can force Todd to transfer the present value of their interest to them immediately.

The correct answer is c.

At the creation of a CRAT, Todd will receive an income tax charitable deduction on his income tax return for the year in which the trust is formed. Option a is incorrect because a CRAT does not allow subsequent contributions after creation. Options b and d are incorrect as the United Way does not have to be informed of their right to receive the remainder interest and they do not have a right to force the payment of their interest.

20. Which of the following statements concerning a pooled income fund is correct?

a. A pooled income fund is created for each individual.

b. The pooled income fund is managed by its contributors.

c. Pooled income funds invest strictly in tax-exempt securities.

d. The income of a pooled income fund is paid to the contributors.

The correct answer is d.

Option d is a correct statement. Option a is incorrect as a pooled income fund is created by the contributions of many individuals whose funds are commingled. Option b is incorrect because the pooled income fund is managed by the charity for whom it will benefit. Option c is incorrect because pooled income funds are not allowed to invest in tax-exempt securities.