



Tax Breaks for Katrina Donations

By Charles Falk, Esq.

In the wake of the Katrina disaster, Congress has enacted a number of tax breaks to encourage those persons who would like to help. The following is a summary of these tax incentives:

1. Individual Charitable Contributions:

Individuals are generally limited to 50% of their contribution base (this is generally adjusted gross income) for contributions to public charities. The Katrina legislation permits cash contributions to charitable entities whether or not they are Katrina-related. The new legislation applies to charitable contributions made between August 28, 2005 and December 31, 2005. For example, if an individual's contribution base is \$100,000 and the individual makes non-Katrina contributions (contributions not covered by the new rules) of \$50,000 for 2005, the individual could make additional Katrina contributions of \$50,000. In this example, if the individual makes more than \$50,000 of Katrina contributions, the excess would be a carryover for 5 years. Further, itemized deductions, including charitable contributions, are generally reduced by 3% of a taxpayer's adjusted gross income. This 3% reduction does not apply to cash charitable contributions made on or after August 28, 2005 and before January 1, 2006. This provision expires on December 31, 2005.

2. Business Donations of Food:

Businesses, whether or not incorporated, may deduct the lesser of the taxpayer's cost plus one-half of the appreciation or two times the tax basis of "apparently wholesome food" that is inventory to the business. In the past, these donations have been limited to a taxpayer's cost, except for "C" corporations. This enhanced deduction is now available to all businesses. These donations must be made to a charitable organization such as a church or relief agency that would otherwise qualify to receive such donations. For donations from entities other than "C" corporations, the deduction is limited to 10% of the net income from the business making the contribution. This provision expires on December 31, 2005.

3. Donations of Books to Public Schools:

Businesses are permitted an enhanced deduction of book inventories similar to the food donations outlined in (2) above. The books must be contributed to a public school for use by grades K-12. This provision expires December 31, 2005.

4. Corporate Charitable Contributions:

The 10% limitation of taxable income that usually applies for “C” corporations is suspended for contributions of cash to a public charity (not a private foundation or supporting organization) for “relief efforts related to Hurricane Katrina”. Contributions for this purpose are taken into account after other charitable contributions; any excess contribution is permitted as a carryover for 5 years. This provision expires on December 31, 2005.

5. Change in Charitable Mileage Rate:

The deduction for car usage for charitable purposes for Katrina-related relief work is increased to 70% of the standard business mileage rate through 2006. Further, reimbursements in excess of the 70% rate up to the standard mileage rate will not be considered as gross income.

The foregoing is intended to provide a summary of the new tax benefits for Katrina-related activities. If you would like to take advantage of one or more of the above, please contact us or your tax advisor for a more detailed analysis regarding your personal tax situation.

Note: This written advice is not intended or written to be used, and it cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer. (The foregoing legend has been affixed pursuant to U.S. Treasury Regulations governing tax practice.)

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