

Our town has been raising private funds to renovate the town hall. Some contributors have asked if they can deduct their contributions to the town on their federal income tax returns. What do we tell them?

Generally, contributors can deduct cash contributions as well as the fair market value of any property donated to local government, but cannot deduct the value of their donated time or services. Contributions also cannot be deducted if, as a result, the taxpayer receives or expects to receive a financial or economic benefit equal to the contribution. For a contribution of \$250 or more, a taxpayer can claim a deduction only after obtaining a written acknowledgment of the donation from the municipality.

Some contributors, including private foundations and charitable organizations, may ask the town to provide proof of its status as a tax-exempt or charitable entity. If required, a municipality can receive a letter ruling from the Internal Revenue Service (IRS). The procedure is outlined in an IRS publication, Revenue Procedure 2004-1, available at www.irs.gov. There is a fee to obtain a letter ruling.

The IRS will also issue a government affirmation letter free of charge. A government affirmation letter describes government entity exemption from federal income tax and cites applicable Internal Revenue Code sections pertaining to deductible contributions. Most organizations and individuals will accept a government affirmation letter as the substantiation they need. Government entities can request a government affirmation letter by calling 877/829-5500.

As everyone is aware, IRS rules are very complicated. Contributors with questions about charitable deductions should speak with their tax preparer. Information on charitable contribution is also available from the IRS at www.irs.gov/taxtopics/tc506.html.

- Jim Barlow, Attorney, VLCT Municipal Assistance Center

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