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A common situation we see in the tax preparation business is clients claiming tithes and donations to their church. While this is beneficial from a tax standpoint, there is often confusion on what constitutes as a receipt for the gift. The IRS is cracking down on charitable contributions so it is important to know the rules before sending out statements to donors.

The IRS has specific rules on charitable giving. To be deductible, the gift must be made to a qualified charitable organization. Charitable gifts made to individuals in need, for instance, do not qualify as a tax deductible charitable donation. If you are unsure if the organization you are donating to is a qualified organization, the IRS has a helpful tool you can access [here](#).

To deduct a charitable contribution, the taxpayer must be able to substantiate the gift. This is where churches often do not prepare their annual gifting statement correctly. The church must provide a statement acknowledging acceptance of the gift and declaring that no goods or services were exchanged in exchange for the gift.

If the receipt does not have the words “no goods or services were exchanged for this contribution,” in the eyes of the IRS it is not a charitable contribution. A recent tax court case illustrates how that statement makes all the difference. A taxpayer was audited and asked to provide receipts for their charitable contribution. The taxpayer dug through his records and proudly presented what his church had given him. The auditor looked at the statement and said it didn’t qualify as it didn’t have the correctly worded written acknowledgement. The taxpayer went back to his church and asked for a corrected statement. When he gave the corrected statement to the auditor it was denied since because it wasn’t obtained prior to filing the return. (David Durden v. Comm., TCM 2012-140)

I hope this clears up some confusion on the matter. If you have any questions, please call one of our tax preparers at Stahlberg & Sutherland, PC or visit our website www.flatheadcpas.com for more information.