Small Business Tax Deductions

Information gathered from website: http://www.gaebler.com/Small-Business-Charitable-Giving.htm

Charitable Giving Deductions

Looking for small business tax deductions? Small business charitable giving makes a valuable contribution to our quality of life. Indeed, many small business founders are generous and wish to donate to needy causes, but before you start down that path, make sure you understand the basics of small company charitable giving.

Charitable giving is one of the ways that small businesses give something back to their communities.

Although goodwill is the primary reason small business owners make charitable contributions, giving has another important benefit. In most cases, the contributions your business makes to charitable causes can be deducted on the company's income tax return. In fact, deducting donations is very common.

But not all charitable contributions qualify as a legitimate deduction in the eyes of the I.R.S. In fact, the deductibility of charitable contributions is governed by a fairly stringent set of rules of regulations. That's why it's important to understand what is and isn't deductible before you make the contribution.

Here are some basic guidelines to help you get started:

Qualified organizations

In order to qualify as a legitimate deduction, contributions must be made to a legitimate, public charity. Public charities include organizations such as religious organizations, educational institutions, governmental agencies, publicly supported organizations, and private foundations.

Most legitimate charitable organizations – particularly publicly-supported organizations, educational institutions, and private foundations – operate under a federally-approved designation, e.g. a 501(c)(3). A 501(c)(3) designation ensures that the charity is genuine and that it is accountable to rules that regulate nonprofit activity. It's a good idea to ask whether the organization has obtained a 501(c)(3) designation before you contribute. If they haven't, then the deductibility of your donation may be in jeopardy, not to mention the fact that the organization may not be as legitimate as they seem.

Gifts of property

In addition to donating money, many small businesses choose to make contributions of merchandise, property, and other assets. Generally speaking, tangible property can be deducted in the amount of the property's fair market value, or FMV. FMV is defined as the amount a buyer would be willing to pay if the property was sold on the open market.

Limitations do exist for gifts of property that would involve a capital gain if the property was sold and for contributions of property that exceeds a certain threshold amount (usually more than $500). Since the I.R.S. rules on these contributions are complex, you should consult with your tax preparer to determine the deductibility of these types of contributions.

Cause-related Marketing

Strictly speaking, cause-related marketing does not necessarily qualify as a charitable deduction for tax purposes. However, it does qualify as a marketing expense deduction which is just as good. Even better, it can be a way to stimulate sales for your business.

Here's how it works: Suppose your own a donut shop. In an effort to do something good for the community, you agree to team up with a local nonprofit to help them raise funds for their annual giving campaign. To do this, you decide to advertise that 10% of the proceeds from every donut sold will be given to the nonprofit to help them achieve their fundraising goal.

The benefits of cause-related marketing are two-fold. First, your business plays an important role in raising funds for a cause you believe in. In addition, your store gets a boost in sales from customers who also sympathize with the nonprofit's cause. Even though they might normally buy donuts from the competition, if they believe in the nonprofit's cause they will give you their business – both now and in the future.