

By Chelan David

## Giving Without Regretting

Find out how to choose a charity that will make the most of your money.

TAKING ADVANTAGE OF THE HOLIDAY SPIRIT, charitable organizations often choose this time of year to step up their appeals for monetary donations. Certainly there's nothing wrong with that; business owners who regularly contribute portions of their profits to charitable organizations say that one of the biggest rewards of giving in this direct way is seeing the fruits of their labor being put to good use. This may hold doubly for people who work in the spa industry, who are already in the business of healing and assisting people.

Unfortunately, in their enthusiasm for helping others, well-intentioned gift-givers sometimes fall prey to unscrupulous solicitors who have less-than-charitable plans for their money. While the majority of charity solicitations are legitimate, business owners can never be too careful when it comes to selecting their charities. It's important to make sure that contributions from your business are going to reputable, well-run organizations that manage their assets

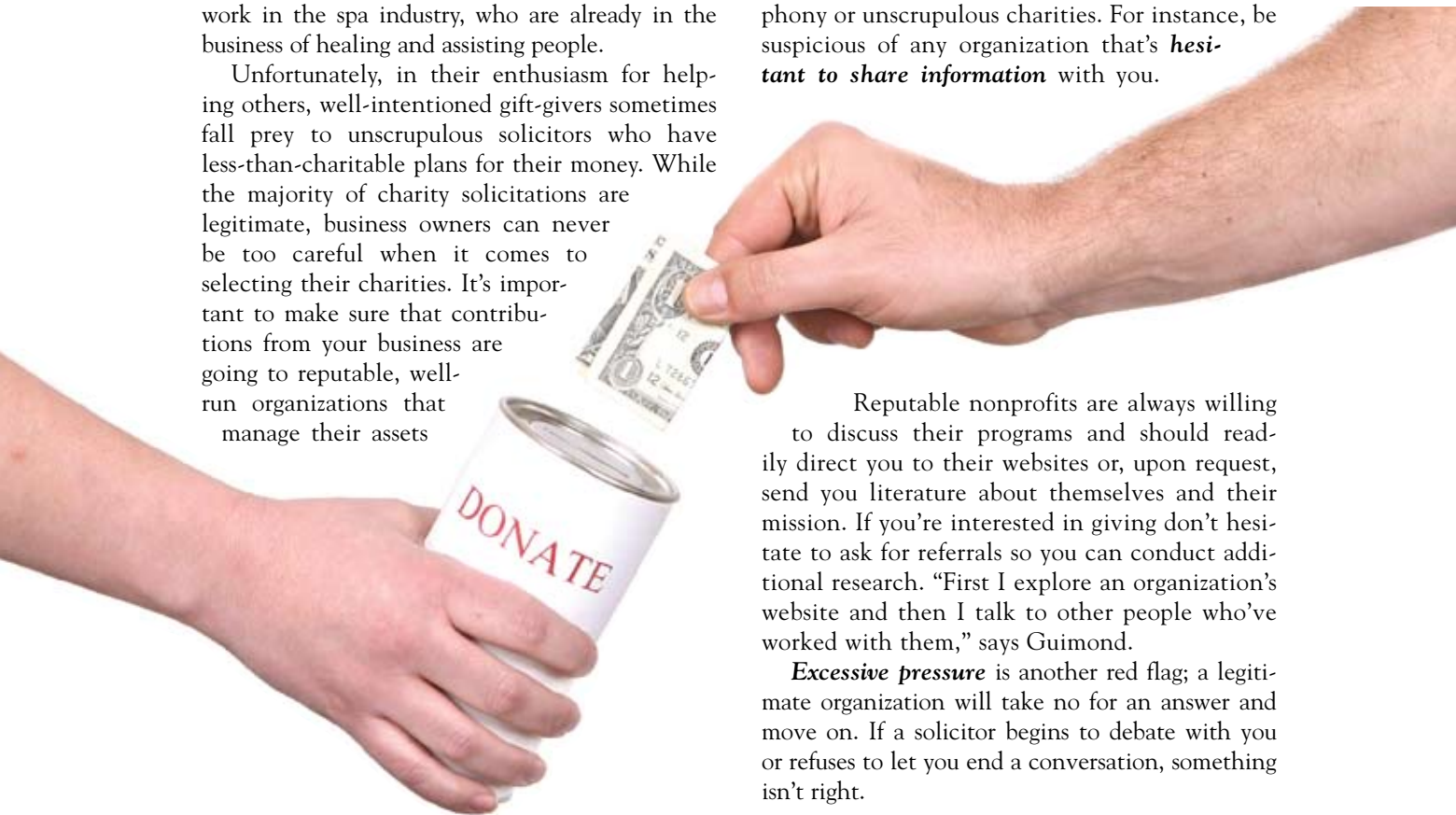
effectively and follow through on the programs they promise. "Do your homework so you don't end up giving to organizations that may not be benefiting the people who need their services," advises Debra Guimond, owner of Bedford Body Care in Bedford, New Hampshire.

### Is It Legit?

Awareness and caution can help you thwart phony or unscrupulous charities. For instance, be suspicious of any organization that's *hesitant to share information* with you.

Reputable nonprofits are always willing to discuss their programs and should readily direct you to their websites or, upon request, send you literature about themselves and their mission. If you're interested in giving don't hesitate to ask for referrals so you can conduct additional research. "First I explore an organization's website and then I talk to other people who've worked with them," says Guimond.

*Excessive pressure* is another red flag; a legitimate organization will take no for an answer and move on. If a solicitor begins to debate with you or refuses to let you end a conversation, something isn't right.



Be leery of **electronic pitches**, especially when they include requests for information. Under no circumstance should you provide your credit card number or other personal information in response to an unsolicited e-mail. Doing so could not only inadvertently route your monetary contribution to unsavory hands, but could also put you at risk for identity theft.

Whether or not there are red flags, if you're still in doubt about the validity of an organization check with online charity watchdogs like CharityNavigator ([www.CharityNavigator.com](http://www.CharityNavigator.com)) or GuideStar ([www.GuideStar.org](http://www.GuideStar.org)). If the charity isn't listed there, recontact the organization and ask to see its letter of determination. "The letter of determination is a two-page letter that the charity gets from the IRS confirming that it has both applied for and received a charitable tax-exempt status," explains Bennett Weiner, COO of BBB Wise Giving Alliance ([www.give.org](http://www.give.org)), an organization that reports on nation-

ally soliciting charitable organizations that are the subject of donor inquiries. "Charities are required to give copies upon request."

### Do the Numbers Add Up?

Once you've determined that a charity is on the up-and-up, the next step is to make sure it spends its money wisely. The majority of your donation should go toward fulfilling the organization's underlying mission, rather than simply covering administrative and fundraising costs. The general rule of thumb is that the **percentage of donations** that goes directly to the charitable purpose of the organization should be 60% or greater. (If you're still concerned about your money going directly to a specific purpose instead of the general operating fund, you can request to earmark your gift, but keep in mind that many charities prefer to decide how best to use your money.)

Another key indicator of money usage is the



A charity's tax return provides valuable information regarding its financial health.

organization's **asset reserves**. If reserves total more than three to five years' worth of operating expenses, chances are that the charity isn't effectively using the money it receives in donations.

Next, you need to know how much of a nonprofit organization's budget is used for programs that fulfill its stated mission. An organization's website may help you become acquainted with its budget and types of programs; however, its actual **financial reports** reveal the organization's overall financial health and show exactly how it spends its money. "It's one thing for an organization to say it's feeding the hungry," says Suzanne Coffman, director of communications for GuideStar. "The question is, how? It needs to provide data that describe goals and results in measurable ways."

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Larger charities make much of their financial information available in annual reports and often post them online. However, to learn about smaller and/or local charities, you'll probably need to directly request the reports. (This exercise will also allow you to see the manner in which the organization responds to its donors.)

**Audited statements**, which are prepared by an outside party, reflect an organization's financial standing at a specific point in time and detail how much is spent on programs, administrative costs and fundraising. Examining a charity's

federal informational tax return, or Form 990, provides information about its annual revenue and expenses, its board of directors' composition, how much the key officers and employees are paid, and descriptions of missions and programs. With the exception of faith-based organizations, says Weiner, tax-exempt nonprofits that bring in more than \$25,000 per year are required to file this form with the IRS.

Upon request, most organizations will provide a copy of their **current operating budget**. Unlike audited financial statements, an operating budget is an internal document used to chart current financial needs. Comparing the current budget to the audited financial statements allows you to see how the charity is progressing toward its goals.

Just as when you invest in a stock, you should feel comfortable with your decision about contributing to a nonprofit organization. Coffman reminds that if after reviewing financials you still

get “a funny feeling about an organization,” you must remember that there are more than 950,000 charities in the United States. “You can always find another one doing similar work but with which you’re more comfortable,” she says.

### Is It Tax Deductible?

When donating to a charity it's important to consider the tax implications of the gift. From a business standpoint, there are limitations on the deductibility of charitable gifts, and typically that limit is 10% of taxable income. A business can carry forward deductions on a corporation's tax return for up to five years, but after that the deduction is lost. Sometimes it makes more sense for a business owner to make donations on a personal level to allow for a full tax deduction. However, remember that individual donors should give to 501(c) (3) organizations that are exempt from taxes.

## The value of volunteer time and services isn't deductible, but out-of-pocket expenses directly related to a voluntary service usually are.

Keeping proper records of charitable gifts is mandatory for tax purposes. A canceled check or credit card statement is adequate for gifts of less than \$250. For larger gifts

you should obtain a receipt from the charitable organization as a confirmation of your tax-deductible donation. Keep in mind that if you receive a premium in exchange for your con-

tribution, such as a DVD player or theater tickets, the amount of your tax deduction is reduced by the fair market value of the premium. If you wish to claim a deduction for the full amount then you can turn down the incentive item.

Some spas elect to donate services such as massages, facials and haircuts to nonprofits in their community. While the value of volunteer time and services to a charitable organization isn't deductible, out-of-pocket expenses directly related to a voluntary service are usually deductible. For example, if a charity is hosting a fundraiser and you drive to the event to provide a service, you can deduct the expense of gas. When in doubt about the deductibility of contributions contact a tax adviser or visit the IRS website at [www.irs.gov](http://www.irs.gov).

Lark Johnston, owner of Spa Sublime in Burlington, North Carolina, recalls her experience with donating a gift certificate to a purported charity. After honoring the solicitor's request she noticed that the certificate had never been redeemed. A full year later, the individual called her again claiming she had lost the original and now needed another one for a new fundraiser. Johnston learned her lesson and now checks for specific documentation of how her donated services will be used and distributed. But one thing she won't change is her penchant for giving. "What you give out will eventually come back to you," she says. "Giving is good—it's a karma thing." ●

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