



**NOTICE FROM THE
DISTRICT STAFF OFFICER - LEGAL 5NR**

TO: All Auxiliary Members

FROM: DSO-L 5NR

SUBJECT: TAX INFORMATION AND DEDUCTIONS FOR AUXILIARISTS

A deduction from Auxiliarists, income tax, for those Auxiliarists who itemize deductions, may be taken for:

- A. Cost of uniforms and insignia with no utility except for use when performing authorized U. S. Coast Guard Auxiliary activities.
- B. Cleaning and maintenance of such uniforms in paragraph A. preceding.
- C. Dues and other contributions to the U. S. Coast Guard Auxiliary.

In this context, care must be exercised in determining what is, in fact, a contribution. Where a ticket is purchased or payment is made and there is received in exchange for the ticket or the payment, merchandise, services rendered or some other reflection of the receipt of value, there is no charitable contribution deduction available. Accordingly, a ticket received upon payment tendered for a meal would not represent a tax deductible contribution since the recipient is expecting to receive a meal in exchange for payment. The same would be true for the price paid for raffle tickets and other games of chance for which the purchaser has the opportunity to win a prize.

To the extent the payment made for any ticket purchased exceeds the cost of whatever is expected in exchange, the excess payment may be considered a charitable contribution and therefore deductible. In the event the payment made is in excess of Seventy-five Dollars (\$75.00), the Auxiliary Unit receiving the payment must provide a written statement to the person making the payment that informs that person that the amount of the payment deductible for Federal Income Tax Purposes is limited to the excess of the amount of any money (and the value of any property other than money) paid over the value of the goods or services provided by the Auxiliary Unit and, the statement must provide a good faith estimate of the value of whatever is expected in exchange, i.e., meal, etc. In those instances where a ticket is issued in exchange for the payment of a fee and the ticket entitles the holder to attend some educational or entertainment program, the cost of the ticket would be deductible if the function were necessary to the accomplishment of the member's auxiliary service. Tickets issued to indicate payment of a general registration fee for attending an auxiliary function should be deductible. In each case, the determination of deductibility will depend upon the unique circumstances in each individual member's personal situation and should be discussed with each member's personal tax advisor before the deduction is taken.

D. Reasonable out-of-pocket expenses incurred in the performance of authorized U.S. Coast Guard Auxiliary activities, including those in excess of "per diem" or other expenses reimbursed by the U.S. Coast Guard. Such expenses are considered "contributions" for Federal Income Tax purposes. Care must be exercised when deciding whether it is appropriate to deduct out-of-pocket expenses incurred in the performance of authorized U.S. Coast Guard activities. Otherwise deductible traveling expenses may not be deductible if a member engages in activities other than U.S. Coast Guard Auxiliary business while traveling. Internal Revenue Code Section 170(k) bars any charitable deduction for traveling expenses, including expenses for meals and lodging while away from home, unless there is no significant element of personal pleasure, recreation or vacation included in the travel.

E. Contributions of property to the U.S. Coast Auxiliary, if such property is accepted by the U.S. Coast Guard Auxiliary.

There may be other deductions allowable and there are limitations thereon. Members cannot claim "personal services" as a deduction. Depreciation on facilities, normal maintenance, slip rental, etc. are not deductible contributions to the U.S. Coast Guard Auxiliary.

In all events, proper records must be created, at the time of the transaction and retained, to substantiate any proposed deduction. These records include canceled checks, receipts, agreements, orders, mileage logs and any other supporting evidence of the activity involved. The information retained should include dates, amounts (or values, established by appraisal if gifts to Auxiliary), the purpose of expenditure or travel and reimbursement received. The Internal Revenue Code provides that a taxpayer must be prepared to substantiate any deduction claimed, failure to do so will result in the deduction being denied.

In context of substantiation of expenditures, the Revenue Reconciliation Act of 1993 has added a complicating provision. The Internal Revenue Code has been amended to provide that no charitable deduction will be allowed for a separate contribution of Two Hundred and Fifty Dollars (\$250.00) or more unless the taxpayer has written substantiation from the recipient of the contribution. The language of the Code amendment would seem to be applicable only to contributions of cash and other property and not out-of-pocket expenses.

Under the Code amendment, for each separate contribution totaling Two Hundred Fifty Dollars (\$250.00) or more, the taxpayer must obtain from the recipient of those contributions some substantiation that the contributions were actually made. In this context, the committee reports note that separate contributions will not be aggregated for purposes of applying the Two Hundred Fifty Dollar (\$250.00) threshold. In other words, each individual activity in which there are separate contributions made, only those that actually exceed the Two Hundred Fifty Dollar limit would be of concern. The provision requires that the substantiation be in the form of a written acknowledgment of the receipt of the contribution sufficient to substantiate the amount but the acknowledgment itself need not take any particular form. Thus, for example, acknowledgments may be made by letter, post card or other similar statements. Further, while the

organization may, it need not prepare separate acknowledgments for each contribution but may provide donors with periodic acknowledgments. Again, in the event any particular service or item of value is returned to the person making the contribution, the acknowledgment must state that fact and provide a reasonable estimate of the value that service or item provided by the recipient of the contribution.

PLEASE BE REMINDED THAT THE DEDUCTIBILITY OF ANY ITEM OF EXPENSE INCURRED BY A MEMBER OF THE U.S. COAST GUARD AUXILIARY IN PURSUIT OF U.S. COAST GUARD AUXILIARY ACTIVITIES CAN ONLY BE FINALLY DETERMINED BASED UPON THE FACTS AND CIRCUMSTANCES UNIQUE TO THE MEMBER PROPOSING THE DEDUCTION. BASED UPON THE PARTICULAR FACTS IN ANY GIVEN SITUATION, IDENTICAL ITEMS OF EXPENSE MAY BE DEDUCTED FOR ONE MEMBER BUT NOT ANOTHER. ACCORDINGLY, THE FOREGOING DISCUSSION IS INTENDED ONLY AS A GENERAL GUIDELINE OF FEDERAL TAX PRINCIPALS AND NOT AS SPECIFIC LEGAL ADVICE TO MEMBERS OF THE AUXILIARY. ANY MEMBER HAVING ANY QUESTION CONCERNING WHETHER THE MEMBER MAY APPROPRIATELY TAKE ANY FEDERAL TAX DEDUCTION SHOULD BE REFERRED TO THE MEMBER'S PERSONAL TAX ADVISOR BEFORE TAKING THE DEDUCTION IN QUESTION. IT IS ALSO IMPORTANT TO KEEP IN MIND THAT THE FOREGOING DISCUSSION HAS REFERENCE ONLY TO FEDERAL INCOME TAX AND DOES NOT INCLUDE AND IS NOT INTENDED TO INCLUDE ANY DISCUSSION OF THE VARIOUS STATE TAXING CODES. WHILE STATE CODES MAY BE IDENTICAL OR SUBSTANTIALLY SIMILAR TO THE ABOVE, MEMBERS SHOULD CONSULT THEIR PERSONAL TAX ADVISOR TO DETERMINE THE APPROPRIATE APPLICABILITY OF STATE TAXING STATUTES.