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What You Don’t Know Can Hurt You: Understand Credit Card Terms

Did you know that in most states, credit card companies can change the terms of your credit card holder agreement with just 15 days' notice? To avoid finding yourself suddenly subject to new credit card terms, the Florida Institute of Certified Public Accountants (FICPA) recommends that you carefully read the fine print in the flyers periodically inserted in credit card statements.

Credit card companies typically disclose the interest rate as an annual percentage rate (APR). Some lenders charge a fixed APR, while the interest rate on a variable rate rises and falls based on an index, such as the prime rate. Obviously, the lower the APR, the better, but be sure to carefully read the fine print. Many cards charge different APRs for purchases, cash advances and balance transfers. Other cards have a low “introductory rate” that rises dramatically after a few months.

The grace period is the time between when you charge a purchase and when you begin to pay interest on that charge. The standard is 25 days, but some credit card companies are reducing that number. If your credit card company does not offer a grace period, you will pay interest on your purchases, even if you pay your balance in full each month.

Some credit card companies charge a flat annual fee for using their card. For consumers who regularly carry a balance, a card with an annual fee and a low interest rate may be better than a card with no annual fee and a high interest rate. Credit card holders who pay off their balance each month should look for a card with no annual fee, since the interest rate doesn’t matter.

Most consumers know that credit card companies assess penalties for late payments. But you might not realize that, with some cards, your payment has to be received not only by a certain date, but also by a certain time, such as 5:00 p.m. or the close of the business day EST, in order to avoid a late fee. Check your agreement to see what date and time your payment is due and be sure to allow sufficient mailing time.

Many credit card companies charge you a fee for exceeding your credit limit, even in cases where they authorize the transaction.

Taking cash from your credit card can be expensive. Credit card companies typically charge a fee equal to 2 to 4 percent of the amount advanced. Cash advances carry a higher interest rate and there’s no grace period. You start accruing interest charges as soon as you make the transaction. To make matters worse, your payments are most likely applied to your lower-interest balance first.

Before transferring a balance to your credit card, ask if there is a fee. A balance transfer fee can often wipe out any interest rate advantage.
Many companies are raising the typical fee for overseas transactions. Since this fee is embedded in the exchange rate you're shown, you might not even realize the charge. Check the fine print in your credit card agreement for your company's policy.

If you read your credit card agreement, you may find a clause stating that your credit card company reserves the right to raise your interest rate if it finds you have been late paying other bills. Yes, lenders routinely scan credit reports, and if your payment to one company is late, you may find your APR has increased on credit cards totally unrelated to the company that received the late payment.

Many credit cards allow you to earn cash back, free airline miles or other bonuses by using your card. Don't sign up for a card based on these perks alone. High interest rates and annual fees can end up costing you more than the value of the perks.

CPAs recommend that consumers thoroughly read and fully understand the terms of their initial credit card agreement and any new inserts announcing revised terms. Be sure to consult with a CPA in your area to learn about using credit cards wisely.

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Tax Benefits of Charitable Giving

If giving to your favorite charity is a personal priority, make sure you obtain tax advice before making a donation. While the greatest reward for donating to a charity may be in knowing that you've helped to make the world a better place, your generosity also earns you valuable tax deductions. The Florida Institute of Certified Public Accountants (FICPA) explains how donations can qualify for tax saving deductions.

Contributions of cash or property must be made to qualified organizations, such as religious, charitable, and educational groups in order to be deductible. The **IRS Web site** has an exempt organization search feature to help you determine whether an organization qualifies. To deduct your charitable contributions, you must file Form 1040 and itemize your deductions on Schedule A. If you contribute cash, your deduction is limited to 50 percent of your adjusted gross income (AGI). A 30 percent limit applies to gifts of property that have appreciated in value and are held for over one year. A five-year carry-over of the excess is allowed.

As long as you date and mail your check by Dec. 31, you can deduct your contribution for 2004 even if the charity doesn't receive it until January 2005. Charitable donations made by a credit card are deductible if the charges are made in 2004, even if you don't pay the bill until 2005. However, multi-year pledges are not deductible until the year in which they are paid. If you made a donation through a pay-by-phone bank account, it is not deductible until the payment date that is shown on the bank statement.

It is important to be aware that different tax rules apply if you contribute cash and get something in return, such as a dinner. If you receive a benefit (goods or services) in exchange for your contribution, you can deduct only the amount of your contribution that exceeds the value of the benefit received. For example, if you pay $100 to attend a fundraising dinner, only the portion of the ticket price above the value of the meal or entertainment is deductible. If your contribution exceeds $75, you must receive a statement from the charity estimating the value of the benefit you received.

Of course, gifts to charity are not limited to cash. One of the most effective ways to reduce taxes through charitable giving is by donating property, such as stock, mutual funds, artwork and antiques that have increased in value. As long as you have owned the property for over one year, you are eligible to deduct the full fair market value of the gift, and avoid capital gains tax on the property's appreciation.

Donations of used items and expenses associated with volunteering are two other categories of charitable contributions. When you contribute used clothing, furniture and household goods, your deduction is limited to the fair market value, which according to the IRS, is the amount that someone would pay for such items in a thrift shop.

When volunteering with a charitable organization, the value of your time is not deductible. However, you can deduct out-of-pocket and incidental expenses in connection with the charity, such as stationery and postage. You may also deduct 14 cents per mile, plus parking fees and tolls, when you drive your own car in connection with your volunteer work. And when your charitable work takes you out of town overnight, the cost of transportation, meals and lodging is deductible if there is no significant element of personal pleasure or vacation.

According to the FICPA, it is important that you follow IRS guidelines for substantiating your contributions. When your contribution is less than $250, your canceled check or dated receipt is adequate substantiation. But for a single contribution of cash or property for $250 or more, you will need to obtain a written receipt. A canceled check is not enough. The receipt must include the date and amount of the contribution and a description of the property donated, and must state whether you received any goods or services in return. If goods or services were provided, the receipt must show their estimated value.

For contributed property with a value above $500, your personal records must also include information concerning how and when you acquired the property and your cost basis. You must complete and attach Form 8283 to your tax return.
Should you donate an item or a group of similar items worth more than $5,000, all of the previous requirements apply, but you must also obtain a qualified appraisal of the gift's value. Publicly traded securities are excluded from this requirement.