

3 Ways to Avoid Charity Donation Fraud this Holiday Season

by [Anna Helhoski](#) on December 2, 2014 | posted in [Featured Articles](#)

With the holidays and deadline for tax deductions approaching, charitable giving is on the rise. Unfortunately, those who wait until the last minute to make a contribution aren't as inclined to research the organization beforehand, making it less likely that their money will go where they intended it to.

As it is, a whopping two-thirds of individuals who give charitable contributions don't research the organizations they're donating to, according to [research from Hope Consulting](#).

"Bad charities bank on sympathy," says Dr. Ronald Pitcock, director of prestigious scholarships at Texas Christian University in Fort Worth, who teaches an honors course on the nature of giving. He adds, "They know many donors will almost immediately give from trusting hearts before ever checking the organization. When you research organizations before making your gift, you help put an end to the abusive practices that bankroll the worst charities."

The good news is, you'll likely find a worthwhile organization that not only supports the causes you're passionate about, but also is responsible with your donation. There are more than 1.4 million nonprofit organizations, including public charities and private foundations, in the United States today, [according to the National Center for Charitable Statistics](#).

Here are some ways you can find a worthwhile charity to donate to this holiday season:

1. Seek transparency

Once you pick a cause, you'll need to find an organization that will stretch your dollar the furthest towards it. All charities should be clear about their financial health, giving you access to metrics such as total revenue, working capital and expenses for programming, administration and fundraising. Those charities that are more transparent about where donations go are more likely to be responsible with your money.

Taking a few extra minutes to vet a charity you want to donate to can give you an idea of where they stand. Ben Erwin, director of business development at Charitybuzz, a global charity auction website that raises money for 501 (c)(3) organizations, says it partners with each charity by verifying its IRS standing, obtaining financial information and using online research tools that include consumer feedback.

Consumers can take a similar approach in gathering information about any charity with [online research tools](#). To weed out poorly run organizations, you can use the Better Business Bureau's [Wise Giving Alliance](#), a standards-based evaluator and accreditor of charities; the American Institute of Philanthropy's CharityWatch, which helps donors make

informed decisions; [GuideStar](#) , which provides records from nonprofits registered with the IRS; or [Charity Navigator](#), a charity rating and evaluation service.

These tools assess charities based on their self-reported tax returns. They don't charge charities for reviews and don't accept advertisements from them. Their ratings systems provide consumers with information on finances, results, legitimacy, transparency and accountability. They also create lists of the highest and lowest rated charities in the country to make finding a trustworthy organization easier for consumers.

2. Make sure programs are the top priority

You'll want to find a charity that allocates 80% or more of your donation toward the kind of programs and services it exists to deliver. Many charities provide progress reports that disclose how donated money was used, whether or not benchmarks were reached and any projected plans for the coming year. If this information is difficult to find or the organization uses vague language like "a portion of your donation," you'll want to find a charity that's more specific about how your money will be used.

While the charity should spend the majority of your donation on programming, don't expect 100% of it to go towards that. Charities have overhead costs, such as administration and fundraising, to take care of too.

3. Find out if the charity is IRS-approved

Nonprofits with IRS approval have a 501(c)(3) status, which means they are considered public charities, making all donations to them tax-exempt. Having IRS approval indicates that the nonprofit has met stringent financial and activity requirements to qualify for tax-exempt status.

You should confirm an organization's IRS approval as a nonprofit by requesting a copy of their IRS Determination letter, suggests R. Joseph Ritter, Jr., CFP of Florida-based Zacchaeus Financial Counseling. Use the IRS's online charity database to search for [verified tax-exempt organizations](#) .

You could also verify an organization's legitimacy, particularly local ones with your state Attorney General's office or state division on nonprofit organization oversight. Ritter says many states require charitable organizations that solicit contributions from the public to register and provide financial information.

"I have steered a client away from making a major donation to a particular organization before because they were not registered with the state to solicit contributions. In states that require registration, failing to register should be a deal killer for donors," says Ritter. "If your charity is not IRS approved, not listed on Guidestar or not registered with the state, consider another charity."

The holidays may make you feel more charitable than usual, but it's not a time to let your guard down. If you're planning to donate or ask a loved one for charitable donation in your name as a gift, it's crucial to find the charity that will truly use that money toward the cause you're passionate about.

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