

## **Are Charity Auction Purchases Deductible Contributions?**

### **Article Highlights:**

- Purchase of Items At Charity Auction
- Auction Donor
- Appreciated Property
- Fair Market Value (FMV)
- Unrelated Use

It is common practice for charities to hold auction events where attendees will bid upon and purchase items. The question often arises whether the money spent on the items purchased constitutes a charitable donation.

The answer to that question is some, but not all, of what's paid for the item may be deductible. So if you purchase items at a charity auction, you may claim a charitable contribution deduction for the excess of the purchase price paid for the item over its fair market value you must be able to show, however, that you knew that the value of the item was less than the amount you paid for it. For example, a charity may publish a catalog, given to each person who attends an auction, providing a good faith estimate of items that will be available for bidding. Assuming you have no reason to doubt the accuracy of the published estimate, if you pay more than the published value, the difference between the amount you paid and the published value may constitute a charitable contribution deduction.

In addition, if you provide goods for charities to sell at an auction, you may wonder if you are entitled to claim a fair market value charitable deduction for your contribution of appreciated property to the charity that will later be sold. Under these circumstances, the law limits your charitable deduction to your tax basis in the contributed property and does not permit you to claim a fair market value charitable deduction for the contribution. Specifically, the Treasury Regulations (Sec 170) provide that if a donor contributes tangible personal property to a charity that is put to an unrelated use, the donor's contribution is limited to the donor's tax basis in the contributed property. The term unrelated use means a use that is unrelated to the charity's exempt purposes or function. The sale of an item is considered unrelated, even if the sale raises money for the charity to use in its programs.

Please contact this office for additional information.