

Proving Noncash Charitable Contributions

Article Highlights:

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One of the most common tax-deductible charitable contributions encountered is that of household goods and used clothing. The major complication of this type of contribution is establishing the dollar value of the contribution. According to the tax code, this is the fair market value (FMV), which is defined as the value that a willing buyer would pay a willing seller for the item. FMV is not always easily determined and varies significantly based upon the condition of the item donated. For example, compare the condition of an article of clothing you purchased and only wore once to that of one that has been worn many times. The almost-new one certainly will be worth more, but if the hardly worn item had been purchased a few years ago and become grossly out of style, the more extensively used piece of clothing could actually be worth more. In either case, the clothing article is still a used item, so its value cannot be anywhere near as high as the original cost. Determining this value is not an exact science. The IRS recognizes this issue and in some cases requires the value to be established by a qualified appraiser.

Remember that when establishing FMV, any value you claim can be challenged in an audit and that the burden of proof is with you (the taxpayer), not with the IRS. For substantial noncash donations, it might be appropriate for you to visit your charity's local thrift shop or even a consignment store to get an idea of the FMV of used items.

The next big issue is documenting your contribution. Many taxpayers believe that the doorknob hanger left by the charity's pickup driver is sufficient proof of a donation. Unfortunately, that is not the case, as a recent United States Tax Court case (Kunkel T.C. Memo 2015-71) pointed out. In that case, the court denied the taxpayer's charitable contributions, which were based solely upon doorknob hangers left by the drivers who picked up the donated items for the charities. The court stated that "these doorknob hangers are undated; they are not specific to petitioners; they do not describe the property contributed; and they contain none of the other required information."

The IRS requires the following documentation for noncash contributions based on the total value of the donation:

- **Deductions of Less Than \$250** - A taxpayer claiming a noncash contribution with a value under \$250 must keep a receipt from the charitable organization that shows:
 1. The name of the charitable organization,
 2. The date and location of the charitable contribution, and
 3. A reasonably detailed description of the property.

Note: The taxpayer is not required to have a receipt if it is impractical to get one (for example, if the property was left at a charity's unattended drop site).

- **Deductions of at Least \$250 But Not More Than \$500** - If a taxpayer claims a deduction of at least \$250 but not more than \$500 for a noncash charitable contribution, he or she must keep an acknowledgment of the contribution from the qualified organization. If the deduction includes more than one contribution of \$250 or more, the taxpayer must have either a separate acknowledgment for each donation or a single acknowledgment that shows the total contribution. The acknowledgment(s) must be written and must include:
 1. The name of the charitable organization,
 2. The date and location of the charitable contribution,
 3. A reasonably detailed description of any property contributed (but not necessarily its value), and
 4. Whether or not the qualified organization gave the taxpayer any goods or services as a result of the contribution (other than certain token items and membership benefits).

If the charitable organization provided goods and/or services to the taxpayer, the acknowledgement must include a description and a good-faith estimate of the value of those goods or services. If the only benefit received was an intangible religious benefit (such as admission to a religious ceremony) that generally is not sold in a commercial transaction outside the donative context, the acknowledgment must say so, and in this case, the acknowledgment does not need to describe or estimate the value of the benefit.

- **Deductions Over \$500 But Not Over \$5,000** - If a taxpayer claims a deduction over \$500 but not over \$5,000 for a noncash charitable contribution, he or she must attach a completed Form 8283 to the income tax return and must provide the same acknowledgement and written records that are required for contributions of at least \$250 but not more than \$500 (as described above). In addition, the records must also include:
 1. How the property was obtained. (for example, purchase, gift, bequest, inheritance, or exchange),
 2. The approximate date the property was obtained or—if created, produced, or manufactured by the taxpayer—the approximate date when the property was substantially completed, and
 3. The cost or other basis, and any adjustments to this basis, for property held for less than 12 months and (if available) the cost or other basis for property held for 12 months or more (this requirement, however, does not apply to publicly traded securities).

If the taxpayer has a reasonable case for not being able to provide information on either the date the property was obtained or the cost basis of the property, he or she can attach a statement of explanation to the return.

- **Deductions Over \$5,000** – These donations require time-sensitive appraisals by a “qualified appraiser” in addition to other documentation. When contemplating such a donation, please call this office for further guidance about the documentation and forms that will be needed.

Caution: The value of similar items of property that are donated in the same year must be combined when determining what level of documentation is needed. Similar items of property are items of the same generic category or type, such as

coin collections, paintings, books, clothing, jewelry, privately traded stock, land, and buildings. For example, say you donated \$5,300 of used furniture to 3 different charitable organizations during the year (a bedroom set valued at \$800, a dining set worth \$1,000, and living room furniture worth \$3,500). Because the value of the donations of similar property (furniture) exceeds \$5,000, you would need to obtain an appraisal of the furniture to satisfy the substantiation requirements—even if you donated the furniture to different organizations and at different times during the year. The IRS has strict rules as to who is considered a qualified appraiser.

To help you document some of these noncash contributions, you can download a fillable [Noncash Charitable Contribution statement](http://images.client-sites.com/NonCash_Contribution2010.pdf) (http://images.client-sites.com/NonCash_Contribution2010.pdf). The statement includes an area for the charity's agent to verify the contribution and a check box denoting whether the qualified organization provided any goods or services as a result of the contribution. Although not specifically blessed by the IRS, this statement includes everything needed for noncash contributions of up to \$500—provided, of course, that you and the charitable organization's representative accurately complete the form.

Do not include items of *de minimis* value, such as undergarments and socks, in the deductible amount of your contribution, as they specifically are not allowed.

Please call this office with any questions about documenting or valuing your noncash contributions.