Requirements to Keep In Mind
When Making Charitable Contributions

Making a charitable donation to a charitable organization can be very rewarding, as it not only benefits a cause the donor cares about, but the donor may also receive an income tax deduction. A donor can fund a charitable contribution in different ways including with cash, marketable securities or other types of property. Each type of donation comes with its own rules or limitations, and the donation of property is no different. There are certain rules that must be followed in order to document a donation of property to be able to receive a tax deduction.

The IRS requires donors and donee organizations to supply certain information to prove a taxpayer's right to deduct charitable contributions. If one donates an item (or a group of similar items) of personal property worth in excess of $5,000, certain valuation or appraisal requirements may be required. When applicable, the appraisal report must be prepared, signed and dated by a qualified appraiser.

The qualified appraisal must be prepared no earlier than 60 days before the date of the contribution of the property. If the donor completes the donation more than 60 days after the date of the appraisal report, the donor must obtain an updated valuation from the appraiser with a revised date which will need to reflect any variances in the relevant market.

In most cases, the qualified appraisal is not submitted to the IRS. Instead, the appraisal summary, which is a separate statement prepared on an IRS form, is attached to the donor's tax return. However, a copy of the appraisal must be attached for gifts of art valued at $20,000 or more and for all gifts of property valued at more than $500,000, other than inventory, publicly traded stock, and intellectual property. If an item has been appraised at $50,000 or more, you can ask the IRS to issue a "Statement of Value" which can be used to substantiate the value.

The penalty for a taxpayer's failure to get a qualified appraisal and attach an appraisal summary to the return is denial of the charitable deduction. Under certain circumstances, the deduction may be lost even if the property was valued correctly but the appraisal does not include the specific information required by the Internal Revenue Service.

There is an exception if the failure was due to reasonable cause.

Exceptions to qualified appraisal requirement. A qualified appraisal isn't required for contributions of:

- a car, boat, or airplane for which the deduction is limited to the charity's gross sales proceeds;
- stock in trade, inventory, or property held primarily for sale to customers in the ordinary course of business;
- publicly traded securities for which market quotations are "readily available;" and
- qualified intellectual property, such as a patent.

Also, only a partially completed appraisal summary must be attached to the tax return for contributions of:

- non-publicly traded stock for which the claimed deduction is greater than $5,000 and doesn't exceed $10,000; and
- publicly traded securities for which market quotations aren't "readily available."

If a donor makes gifts of two or more properties during a tax year, even when the donations are to multiple donees, the claimed values of all property of the same category or type (such as stamps, paintings, books, stock that isn't publicly traded, land, jewelry, furniture, or toys) are added together in determining whether the $5,000 or $10,000 limits are exceeded.

It is essential to comply with the appraisal requirements or risk disallowance of the charitable deduction.

For further clarification or to discuss any aspect of your contribution planning, contact your Anchin Relationship Partner or Antonia Greenwald, a Director in the firm's Matrimonial Advisory Group, at 212.840.3456 or info@anchin.com.

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