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NEW TAX RULES FOR DONATIONS

Besides overhauling defined benefit and other retirement plans, the Pension Protection Act of 2006 included several elements that affect charitable giving and exempt organizations.

IRA charitable gift rollover for 2006 and 2007. Individuals aged 70 ½ and older may transfer up to \$100,000 annually in 2006 and 2007 directly from an IRA to charity, and the charitable gift counts toward minimum distribution requirements. Because the distribution generates neither taxable income nor a tax deduction, even non-itemizers can benefit. State treatments vary.

Cash donations now require specific documentation. All charitable donations of cash must be substantiated with a bank record or written communication from the recipient, regardless of the amount of the donation. Previously, contributions of less than \$250 did not require a receipt or other documentation. This requirement is effective for tax years beginning after August 17, 2006.

Gifts of tangible personal property subject to additional requirements. The fair market value of gifts of appreciated tangible personal property may be claimed only if the recipient uses the property for its exempt purpose for three years following the date the gift is received. Otherwise, the donor can deduct only the adjusted basis in the property. Tangible personal property includes clothing and household items, usually of declining value, as well as art works and antiques that may appreciate in value. For gifts of clothing or household items, the deduction is limited to items in good used condition or better. Donors can avoid the good-condition requirement and IRS restrictions on a single item with a claimed deduction of more than \$500 by including a qualified appraisal with the tax return. Changes are effective for contributions made after August 17, 2006.

Stricter requirements for appraisals and appraisers. The definitions of “qualified appraisal” and “qualified appraiser” have been codified and revised for purposes of the charitable deduction for donated property. The revisions generally affect donors of property with a fair market value in excess of \$5,000, excluding publicly traded stock, and some donors of clothing and household items. Changes apply to appraisals prepared for returns or submissions filed after August 17, 2006.

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