

Deduct a contribution of clothing or a household item under the new rules (2006)

Every year, Americans donate billions of dollars to charity. Many donations are in cash. Others take the form of clothing and household items. With all this money involved, it's inevitable that some abuses occur. The new Pension Protection Act cracks down on abuses by requiring that all donations of clothing and household items be in "good used condition or better."

Good used or better condition

The new law does not define good or better condition. For guidance, you can look to the standards that many charities already have in place. Many charities will not accept your donations of clothing or household items unless they are in good or better condition.

Clothing cannot be torn, soiled or stained. It must be clean and wearable. Many charities will reject a shirt with a torn collar or a jacket with a large tear in a sleeve. As one charity spokesperson summed it up, "Don't donate anything you wouldn't want to wear yourself."

Household items include furniture, furnishings, electronics, appliances, and linens, and similar items. Food, paintings, antiques, art, jewelry and collectibles are not household items. Household items must be in working condition. For example, a DVD player that does not work is not in good used or better condition. You can still donate it (if the charity will accept it) but you cannot claim a tax deduction. Household items, particularly furnishings and linens, must be clean and useable.

The new law authorizes the IRS to deny a deduction for the contribution of a clothing or household item that has minimal monetary value. At the top of this list you can expect to find socks and undergarments, which have had inflated values for years.

Fair market value

You generally can deduct the fair market value of your donation. Unless your donation is new - for example, a blouse that has never been worn - its fair market value is *not* what you paid for it. Just like when you drive a new car off the dealer's lot, a new item loses value once you wear or use it. Therefore, its value is less than what you paid for it.

If you're not sure about an item's value, a reputable charity can help you determine its fair market value. Our office can also help you value your donations of used clothing and household items.

Get a receipt

Generally, you must obtain a receipt for your gift. If obtaining a receipt is impracticable, for example, you drop off clothing at a self-service donation center, you must maintain reliable written information about the contribution, such as the type and value of the property.

Charitable contributions of property of \$250 or more must be substantiated by obtaining a contemporaneous written acknowledgement from the charity including an estimate of the value of the items. If your deduction for noncash contributions is greater than \$500, you must attach Form 8283 to your tax return. Special rules apply if you are claiming a deduction of more than \$5,000.

Exception

In some cases, the new rules about good used or better condition do not apply. The restrictions do not apply if a deduction of more than \$500 is claimed for the single clothing or household item and the taxpayer includes an appraisal with his or her return.

If you have any questions about the new charitable contribution rules for donations of clothing and household items, give our office a call. The new rules apply to contributions made after August 17, 2006.