2006 Pension Protection Act - Charitable Deductions

The *Pension Protection Act of 2006 (H.R. 4)* is a 900+ page new law that is about a lot more than pension funding. Tacked-on at the end of the law are some very important changes to the rules for charitable donations. These changes affect everyone who makes gifts to charitable organizations and deducts their gifts on their tax returns. Many of these rules go into effect immediately.

The new law places limits on donations of cash, clothing and household items. It also reforms the rules for donations of easements, fractional interests and other items. Businesses get enhanced deductions for food and books and if you are age 70 or older, you can donate the proceeds of an IRA to charity tax-free. One thing should be noted. The new law does not permit non-itemizers to deduct charitable contributions, even though this change has been proposed many times in Congress.

Clothing and household items. Effective for donations made after August 17, 2006, anyone making donations of clothing and household items can only take a deduction for items that are in good condition. This includes furniture, furnishings, electronics, appliances, linens and similar items. You should be aware that food, paintings, antiques, objects of art, jewelry, gems and collectibles are not household items. The IRS may deny a deduction for any item that has minimal value, like used socks or undergarments. However, there is an exception for the donation of single items that might not be in at least good condition if the item is worth more than $500 and you include a qualified appraisal with the donation.

Cash. In another big change, that is effective starting in 2007, the IRS will no longer permit a deduction for the contributions of cash, check or other monetary gift unless you, as the donor, can show a bank record or a written communication from the charity indicating the amount of the donation, the date the donation was made and the name of the charity. The new recordkeeping requirements give taxpayers no leeway. You must have a bank record or a receipt to substantiate your deduction.

IRAs. If you own an IRA and have reached the age of 70, the new law allows tax-free distributions from IRAs for charitable purposes through December 31, 2007. The maximum amount you can distribute each year for charitable purposes is $100,000. Any distribution made from your IRA will not be included in gross income and, additionally, will not be taken into account in determining your individual deduction for charitable contributions. This is helpful even to taxpayers who do not itemize.

Food and books. Last year, Congress expanded the deductions for donations of food and books in the wake of Hurricane Katrina. All businesses, including S corporations, partnerships and other business entities, can temporarily deduct contributions of food and books. These enhanced deductions are available through December 31, 2007.

Conservation easements. Until December 31, 2007, the new law also raises the deduction limits for qualified conservation easements from 30 percent to 50 percent of adjusted gross income. Additionally, the contributions are not taken into account in determining the amount of other allowable charitable contributions. You are also able to carry over any of the qualified conservation contributions that exceed the 50 percent limitation for the next 15 years.

Appraisals. The new law strengthens the penalties for returns that are filed with valuation misstatements. Return preparers as well as taxpayers risk penalties for incorrect or fraudulent appraisals. Appraisers who make bad appraisals also can be sanctioned.

S corporations. Under the new law, the reduction in a shareholder's basis in the stock of an S corporation resulting from a charitable contribution made the corporation equals the shareholder's pro rata share of the adjusted basis of the contributed property. This treatment applies to contributions made through December 31, 2007.

More changes. The new law also changes the rules for charitable contributions of fractional interests, taxidermy property and facade easements.

As you can see, the new *Pension Protection Act of 2006* immediately impacts your decisions regarding charitable contributions. Please contact our office and we would be happy to explore any of the above items in greater detail with you.