

2006 Pension Protection Act - New Substantiation Requirements for Charitable Deductions

Congress recently passed the Pension Protection Act of 2006 (Pension Act). The Pension Act includes a number of charitable provisions that may affect your tax planning. Included in these provisions are two amendments to the charitable contribution deduction substantiation requirements. These amendments include a limitation on the deduction for charitable contributions of clothing and household items, and a modification of the recordkeeping requirements for certain charitable contributions.

Limitation on deduction for charitable contributions of clothing and household items. The Pension Act adds a provision that limits the deduction for charitable contributions of clothing and household items to contributions of items that are in good used condition or better. A deduction may be denied for items with minimal monetary value. Household items include furniture, furnishings, electronics, appliances, linens, and other similar items. Food, paintings, antiques, objects of art, jewelry and gems, and collections are specifically excluded from the definition. These limitations do not apply to a single item of clothing or a household item for which a deduction of more than \$500 is claimed, supported by a qualified appraisal with respect to the property. For partnerships and S corporations, the limitation is applied at the entity level, except that the deduction shall be denied at the partner or shareholder level. This amendment applies to contributions made after the date of enactment of the Pension Act.

Modification of recordkeeping requirements for certain charitable contributions. The Pension Act adds a new provision that denies a charitable deduction for any contribution of cash, check, or other monetary gift unless you maintain as a record of such contribution a bank record or a written communication from the donee/recipient showing the name of the donee organization, the date of the contribution, and the amount of the contribution. Thus, you will be required to maintain records on all monetary gifts made, regardless of amount. This amendment applies to contributions made in tax years beginning after the date of enactment of the Pension Act.

Please contact us at your earliest opportunity if you would like for us to assist you regarding this development.