

# Giving Gifts of Property to Charity

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Despite recent changes requiring stricter substantiation of monetary gifts to charity, the tax rules are pretty straightforward when you write out a check or charge a donation by credit card. In general, you can deduct the full amount of your charitable donation in the year in which you make the gift.

However, the rules are considerably more complex if you give appreciated property to charity. Fortunately, you can realize significant tax savings with some careful planning.

The term “appreciated property” applies to property with a fair-market value (FMV) in excess of your basis. Ordinarily, your “basis” is what you paid for the property. Your basis for depreciable property is reduced by any depreciation deductions allowed over the years. In addition, if you acquired the property by gift, you assume the same basis the donor had immediately before the gift.

However, depending on how long the property has been held, a different set of rules may apply. This is where things can get tricky. For this purpose, the deduction for donated property held for one year or less is limited to the property’s basis.

**Example 1:** Suppose you donate shares of stock worth \$3,000 to a charity. You acquired the stock six months ago for \$2,000. As a result, your deduction is limited to \$2,000, your original basis in the property.

On the other hand, there is a different rule if you have held the property longer than one year (i.e., the holding period to qualify for long-term capital gain). In this case, you can generally deduct the full FMV of the property. In other words, the appreciation is untaxed—forever.

**Example 2:** Assume the same facts as before, except that you bought the stock more than a year before making the charitable contribution. As a result, you can deduct the FMV of \$3,000—\$1,000 more than before.

But that is not the end of the story. There are several other potential pitfalls to avoid. In some cases, your deduction for property that has been held for more than one year may be limited to your basis.

Say you contribute tangible personal property that is put to an “unrelated use” by the charity. A painting donated to an art museum and prominently displayed would be related to the use. However, artwork given to a hospital and relegated to a closet is not. The deduction is limited to your basis.

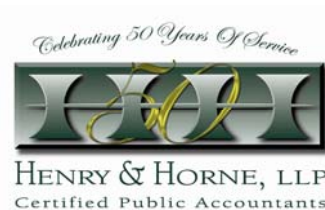
Other special rules may apply to gifts of appreciated property. For example, no deduction is allowed for a gift of a “future interest” in tangible personal property (i.e., the charity does not receive present possession of the property). Finally, deductions for charitable donations may be reduced for certain high-income taxpayers.

Note that you may need additional records when you file your tax return. A written description is required for noncash gifts exceeding \$500. Also, you must obtain an independent appraisal for a gift valued at more than \$5,000.

Before you donate property to charity, consult a tax adviser. This is the best approach for maximizing deductions.

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