

IRS Acts Tough on Charitable Appraisals

By Chuck Inderieden, CPA, PFS
(480) 483-1170 ~ ChuckI@hccpa.com



A taxpayer in a new Tax Court case learned a hard lesson about charitable deductions of property: Observe the strict letter of the tax law. The taxpayer, who probably should have known better, ended up with a zero deduction, even though he had clearly donated property worth millions!

Facts of the case: The taxpayer was a prominent entrepreneur, real estate broker and certified real estate appraiser residing in Sacramento, California. He and his wife established a charitable remainder unitrust (CRUT). In 2003, the taxpayer donated five properties to the CRUT. Then, in 2004, he also donated a shopping center to it.

The taxpayer did not use a qualified independent appraiser to determine the value of the properties. Instead, he appraised them himself and used those values for claiming deductions on Form 8283, the form that the IRS requires for noncash charitable contributions. The taxpayer later admitted in court that he did not read the accompanying instructions when filling out this form, but relied solely on the form itself. Based on what he thought was “clear” language, the taxpayer assumed that self-appraisals were permitted.

The IRS spotted various inaccuracies and omissions on the form. For instance, the taxpayer did not include the “basis” for any of the other properties. He merely indicated that he had acquired the properties in the 1970s and 1980s.

For four of the five properties that were donated in 2003, the taxpayer claimed a combined value of more than \$1 million. In claiming a value of \$14.9 million for the fifth property, he said that he purposely undervalued the property to avoid possible complications. Due to the tax law limits, the 2003 deduction was capped at \$3.9 million, with the balance carrying over to the next five years. The donation in 2004 was valued at more than \$2 million.

The IRS audited the taxpayer’s returns in 2005 and questioned the appraisals. At this point, the taxpayer hired independent appraisers, who established values similar to the ones he had claimed. Subsequently, several of the properties were sold at comparable prices. But that’s where the IRS really dug in its heels.

Tough talk: The IRS argued that the taxpayer was not entitled to any deduction because of the omissions on the form and his failure to obtain independent appraisals. It did not matter that the taxpayer

had obviously donated properties worth millions. Although it expressed sympathy, the Tax Court sided with the IRS.

Note that the court acknowledged that this result is harsh. Furthermore, it pointed out that the properties may even have been undervalued by the taxpayer. But the Tax Court said it was bound to apply the prevailing law.

Do not leave large charitable deductions to chance. Check with your Henry & Horne, LLP tax professional to ensure that you are meeting all the strict requirements for gifts of property.

Chuck Inderieden, CPA, PFS, Co-Managing Partner of Henry & Horne, LLP, possesses extensive knowledge in estate, gift and trust planning services for individuals, trusts, and small to medium-size businesses. He can be contacted at (480) 483-1170 or ChuckI@hhcpa.com.



HENRY & HORNE, LLP
Certified Public Accountants

Tempe
2055 E. Warner Road
Suite 101
Tempe, AZ 85284
(480) 839-4900

Scottsdale
7098 E. Cochise
Suite 100
Scottsdale, AZ 85253
(480) 483-1170

Casa Grande
1115 E. Cottonwood
Suite 100
Casa Grande, AZ 85122
(520) 836-8201

www.henryandhorne.com