

Making Sense of Boat Donations After 2004

What are the new rules on boat donations? How much of a deduction can I reasonably take? How can I claim “fair market value” for my donation? Until the IRS issued some recent clarifications, these have not been easy questions to answer.

On December 31, 2004, the tax laws changed restricting a donor to a maximum tax deduction equal to the value that the charity receives upon sale or liquidation of the vessel, *unless* it is put to “significant intervening use” in the organization’s regularly conducted activities. Often, a charity will sell a boat for considerably less than the market value to quickly raise operating cash. In this common scenario, the donor would not be able to claim the boat’s market value, but would be limited to a deduction in the amount that the charity actually received from the sale. This is potentially bad news for a donor who expects to deduct what the boat is worth on the open market, but finds out, down the line that the charity sold it for 1/2 of that price to raise cash, and that the deduction is limited to that lesser amount.

If, however, the charity actually uses the boat in a “significant” and “not incidental” way, the donor may claim instead, the fair market value of the vessel which is usually determined by a credible marine survey and comparisons with similar boat’s sale and market prices. The IRS gives some guidelines for determining what “significant use” really is, but if you are considering donating your boat to a charity, it is probably a good idea to make sure that: 1) the charity will adequately document their usage, 2) that the usage will fall into the ordinary activities of that charity, 3) that the charity will make that documentation available to you, and 4) that you obtain tax advice from a credible source independent of the charity.

If the value of the donation is greater than \$500.00, in order to take *any* deduction, the charity must give you “contemporaneous written acknowledgement” of your donation. Make sure you have this and that it is given in a timely fashion. See the links to IRS Form 1098c for more details.

For those of us who run and work for charities, a boat donation can make an incredible difference toward attaining our goals. For donors, it can bring great satisfaction in helping to further a cause that they hold dear. Unfortunately, the rules that govern boat donations have been stretched and tested in the past, and what was initially a simple process, now warrants careful attention and research. With a little planning, donating a boat to charity still presents a viable means of turning your old boat into a gift that can help others.

For additional information follow these links to IRS Publications

<http://www.irs.gov/pub/irs-pdf/p4303.pdf>

<http://www.irs.gov/pub/irs-pdf/p4302.pdf>

<http://www.irs.gov/charities/article/0,,id=139559,00.html>

<http://www.irs.gov/pub/irs-drop/n-05-44.pdf>

<http://www.irs.gov/pub/irs-pdf/i1098c.pdf>

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