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Donating property? Don't skimp on the appraisal

If you donate property to charity, it's critical that you comply with tax rules for substantiating the value of your gift. If you don't, the IRS may deny your entire charitable deduction, even if your valuation is spot-on.

Qualified appraisal required

To deduct a donation of property (other than publicly traded securities) worth more than $5,000 ($10,000 for closely held stock), you're required to have the property appraised by a qualified appraiser. You must also file Form 8283, "Noncash Charitable Contributions," with your federal tax return and have the appraiser sign the form's Section B, Part III, "Declaration of Appraiser." For property worth more than $500,000, you must also attach the appraisal report to your return.

A qualified appraiser is a professional who has earned an appraisal designation from a recognized professional organization or otherwise meets certain minimum education and experience requirements. The appraiser should also have appropriate education and experience in valuing the type of property being appraised.

The tax regulations provide detailed requirements for qualified appraisals. Among other things, a qualified appraisal report must:

- Be prepared, signed and dated by a qualified appraiser other than the donor or donee,
- Relate to an appraisal conducted within 60 days before the contribution,
- Not involve a "prohibited appraisal fee," and
- Provide certain information, including a description of the property and its physical condition, the actual or expected contribution date, the terms of any agreements that affect the property's value, the appraiser's identity and qualifications, the valuation date, and the methods and basis of valuation.

A prohibited appraisal fee is one that's based on a percentage of the property's appraised value (or a percentage of the allowed deduction), with certain exceptions.

Dot the i's and cross the t's

The qualified appraisal requirement is one where form is just as important as substance. If you don't follow the rules to the letter, you'll likely lose valuable tax deductions regardless of whether the reported value is accurate. In the case of *Mohamed v. Commissioner*, a married couple learned this lesson the hard way.

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In 2003 and 2004, the couple donated several pieces of real estate to a charitable remainder trust (CRT). The husband, a real estate broker and certified real estate appraiser, "self-appraised" the properties to be worth approximately $18.5 million. At the time, donations greater than $5,000 required an appraisal summary. (The requirement of an appraisal report for donations greater than $500,000 was added later.)

The husband filled out Form 8283 himself, admittedly without reading the instructions. Although he attached statements to the form containing information about the properties and their value, the statements didn't qualify as appraisal summaries. The couple's biggest problem, though, was that the husband wasn't a qualified appraiser, because he was both the donor and — as trustee of the charitable trust — the donee.

Because the couple failed to adequately substantiate their donation, the Tax Court denied them *any* charitable deduction. After the IRS started its audit, an independent appraiser valued the properties at more than $20 million, but by then it was too late.

Get the deductions you deserve

If you plan to donate property to charity, discuss the appraisal requirements with your tax advisor. Why? Because, as you can see, just one mistake can wipe out otherwise legitimate tax benefits.