

How Inadequate Documentation and Failure to Follow the Rules Can Really Hurt!



June 2012

A California couple was recently denied an \$18.5 million charitable deduction due to inadequate documentation.

If you donate property in excess of \$5,000 to a qualified charitable organization, regulations require that taxpayers attach an appraisal summary to Form 8283 “Noncash Charitable Contributions”, and file with their tax return (for contributions in excess of \$500,000, a copy of the qualified appraisal must also be attached). These specific requirements led to a total of \$18.5 million in charitable deductions becoming disallowed by one taxpayer who did not provide the adequate supporting documents.

Facts of the Case

The taxpayer was a real-estate broker, certified real-estate appraiser, and entrepreneur. The assets donated totaled \$18.5 million in real estate. The taxpayer performed his own appraisals on the properties, filled out Form 8283 (and admittedly did not read the instructions to the form), and attached the self-prepared appraisals. The taxpayer undervalued the properties in an effort to avoid any ramifications of inflating the appraised values.

After conducting an audit, the IRS denied the entire \$18.5 million contribution deduction as the taxpayer did not attach an independent “qualified” appraisal to his Form 8283. During the audit, the taxpayer hired independent appraisers to confirm that the taxpayer’s appraisals were accurate.

The Court’s Decision

The Tax Court denied the taxpayer’s charitable contribution deduction for the real-estate properties donated. The Court confirmed that the donations were made and acknowledged that the self-appraisals were undervalued, yet still denied the deduction since these deductions were not properly substantiated. The Court also acknowledged that the Form 8283 can be confusing, and that the IRS has since revised said forms to help alleviate some of the confusion. Albeit the outcome was harsh, The Court recognized that problems regarding valuing properties are so great that Congress need be quite specific about what donors are required to do to support their deductions and the rules could not be undermined “in a single

sympathetic case.” ([T.C. Memo 2012-152](#))

The Lesson

Key points to learn from this case:

- › Seek professional tax advice *before* entering into major transactions
- › If you prepare your own return, pay careful attention to the instructions
- › If you have an unusual or major transaction to report, consult with or have your return reviewed by a tax professional prior to filing
- › Maintain supporting documentation in your files as well as technical support for positions taken on your return

Stay in touch >  

Information provided by Keiter is intended for reference only. The information contained herein is designed solely to provide guidance to the reader, and is not intended to be a substitute for the reader seeking personalized professional advice based on specific factual situations. This information does NOT constitute professional accounting, investment, tax or legal advice and should not be interpreted as such.

Although Keiter has made every reasonable effort to ensure that the information provided is accurate, Keiter, and its shareholders, managers and staff, make no warranties, expressed or implied, on the information provided. The reader accepts the information as is and assumes all responsibility for the use of such information. All information contained is protected by copyright and may not be reproduced in any form without the expressed, written consent of Keiter. All rights are reserved.

IRS Circular 230 Disclosure:

To ensure compliance with requirements imposed by the IRS, we inform you that any tax advice contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding any penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction(s) or tax-related matter(s) addressed herein.