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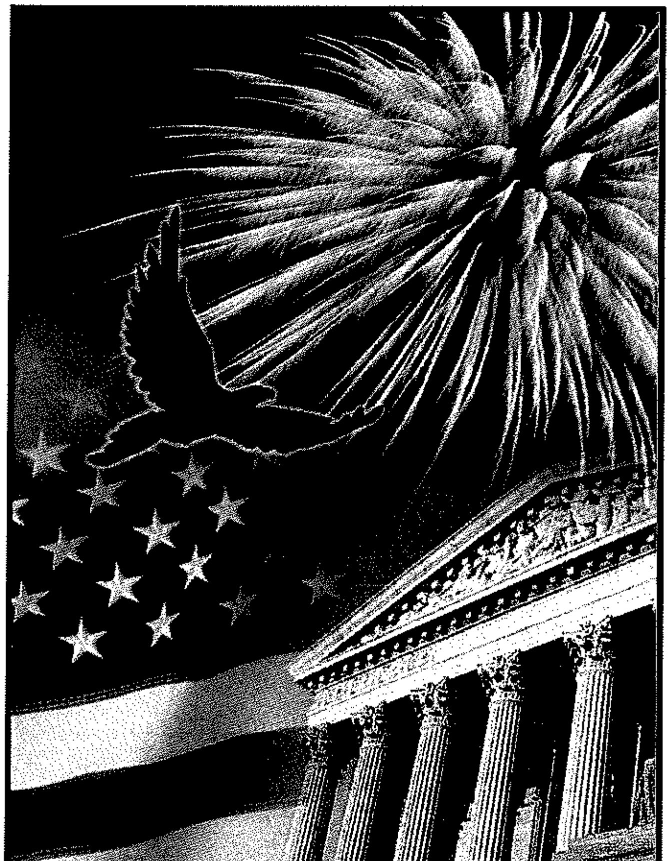
Determining the Value of Donated Property



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Introduction

This publication is designed to help donors and appraisers determine the value of property (other than cash) that is given to qualified organizations. It also explains what kind of information you must have to support the charitable contribution deduction you claim on your return.

This publication does not discuss how to figure the amount of your deduction for charitable contributions or written records and substantiation required. See Publication 526, Charitable Contributions, for this information.

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

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Useful Items

You may want to see:

Publication

- ❑ **526** Charitable Contributions

Form (and Instructions)

- ❑ **8282** Donee Information Return
- ❑ **8283** Noncash Charitable Contributions
- ❑ **8283-V** Payment Voucher for Filing Fee Under Section 170(f)(13)

See *How To Get Tax Help,* near the end of this publication, for information about getting these publications and forms.

What Is Fair Market Value (FMV)?

To figure how much you may deduct for property that you contribute, you must first determine its fair market value on the date of the contribution.

Fair market value. Fair market value (FMV) is the price that property would sell for on the open market. It is the price that would be agreed on between a willing buyer and a willing seller, with neither being required to act, and both having reasonable knowledge of the relevant facts. If you put a restriction on the use of property you donate, the FMV must reflect that restriction.

Example 1. If you give used clothing to the Salvation Army, the FMV would be the price that typical buyers actually pay for clothing of this age, condition, style, and use. Usually, such items are worth far less than what you paid for them.

Example 2. If you donate land and restrict its use to agricultural purposes, you must value the land at its value for agricultural purposes, even though it would have a higher FMV if it were not restricted.

Factors. In making and supporting the valuation of property, all factors affecting value are relevant and must be considered. These include:

- The cost or selling price of the item,
- Sales of comparable properties,
- Replacement cost, and
- Opinions of experts.

These factors are discussed later. Also, see *Table 1* for a summary of questions to ask as you consider each factor.

Date of contribution. Ordinarily, the date of a contribution is the date that the transfer of the property takes place.

Stock. If you deliver, without any conditions, a properly endorsed stock certificate to a qualified organization or to an agent of the organization, the date of the contribution is the date of delivery. If the certificate is mailed and received through the regular mail, it is the date of mailing. If you deliver the certificate to a bank or broker acting as your agent or to the issuing corporation or its agent, for transfer into the name of the organization, the date of the contribution is the date the stock is transferred on the books of the corporation.

Options. If you grant an option to a qualified organization to buy real property, you have not made a charitable contribution until the organization exercises the option. The amount of the contribution is the FMV of the property on the date the option is exercised minus the exercise price.

Example. You grant an option to a local university, which is a qualified organization, to buy real property. Under the option, the university could buy the property at any time during a 2-year period for $40,000. The FMV of the property on the date the option is granted is $50,000.

In the following tax year, the university exercises the option. The FMV of the property on the date the option is exercised is $55,000. Therefore, you have made a charitable contribution of $15,000 ($55,000, the FMV, minus $40,000, the exercise price) in the tax year the option is exercised.

Determining Fair Market Value

Determining the value of donated property would be a simple matter if you could rely only on fixed formulas, rules, or methods. Usually it is not that simple. Using such formulas, etc., seldom results in an acceptable determination of FMV. There is no single formula that always applies when determining the value of property.

This is not to say that a valuation is only guesswork. You must consider all the facts and circumstances connected with the property, such as its desirability, use, and scarcity.

For example, donated furniture should not be evaluated at some fixed rate such as 15% of the cost of new replacement furniture. When the furniture is contributed, it may be out of style or in poor condition, therefore having little or no market value. On the other hand, it may be an antique, the value of which could not be determined by using any formula.

Cost or Selling Price of the Donated Property

The cost of the property to you or the actual selling price received by the qualified organization may be the best indication of its FMV. However, because conditions in the market change, the cost or selling price of property may have less weight if the property was not bought or sold reasonably close to the date of contribution.

The cost or selling price is a good indication of the property's value if:

- The purchase or sale took place close to the valuation date in an open market,
- The purchase or sale was at "arm's-length,"
- The buyer and seller knew all relevant facts,
- The buyer and seller did not have to act, and
- The market did not change between the date of purchase or sale and the valuation date.

Example. Tom Morgan, who is not a dealer in gems, bought an assortment of gems for $5,000 from a promoter. The promoter claimed that the price was "wholesale" even though he and other dealers made similar sales at similar prices to other persons who were not dealers. The promoter said that if Tom kept the gems for more than 1 year and then gave them to charity, Tom could claim a charitable deduction of $15,000, which, according to the promoter, would be the value of the gems at the time of contribution. Tom gave the gems to a qualified charity 13 months after buying them.

The selling price for these gems had not changed from the date of purchase to the date he donated them to charity. The best evidence of FMV depends on actual transactions and not on some artificial estimate. The $5,000 charged Tom and others is, therefore, the best evidence of the maximum FMV of the gems.

Terms of the purchase or sale. The terms of the purchase or sale should be considered in determining FMV if they influenced the price. These terms include any restrictions, understandings, or covenants limiting the use or disposition of the property.

Rate of increase or decrease in value. Unless you can show that there were unusual circumstances, it is assumed that the increase or decrease in the value of your donated property from your cost has been at a reasonable rate. For time adjustments, an appraiser may consider published price indexes for information on general price trends, building costs, commodity costs, securities, and works of art sold at auction in arm's-length sales.

Example. Bill Brown bought a painting for $10,000. Thirteen months later he gave it to an art museum, claiming a charitable deduction of $15,000 on his tax return. The appraisal of the painting should include information showing that there were unusual circumstances that justify a 50% increase in value for the 13 months Bill held the property.

Table 1. **Factors That Affect FMV**

IF the factor you are considering is...	THEN you should ask these questions...
cost or selling price	Was the purchase or sale of the property reasonably close to the date of contribution? Was any increase or decrease in value, as compared to your cost, at a reasonable rate? Do the terms of purchase or sale limit what can be done with the property? Was there an arm's-length offer to buy the property close to the valuation date?
sales of comparable properties	How similar is the property sold to the property donated? How close is the date of sale to the valuation date? Was the sale at arm's-length? What was the condition of the market at the time of sale?
replacement cost	What would it cost to replace the donated property? Is there a reasonable relationship between replacement cost and FMV? Is the supply of the donated property more or less than the demand for it?
opinions of experts	Is the expert knowledgeable and competent? Is the opinion thorough and supported by facts and experience?

Arm's-length offer. An arm's-length offer to buy the property close to the valuation date may help to prove its value if the person making the offer was willing and able to complete the transaction. To rely on an offer, you should be able to show proof of the offer and the specific amount to be paid. Offers to buy property other than the donated item will help to determine value if the other property is reasonably similar to the donated property.

Sales of Comparable Properties

The sales prices of properties similar to the donated property are often important in determining the FMV. The weight to be given to each sale depends on the following.

- The degree of similarity between the property sold and the donated property.
- The time of the sale—whether it was close to the valuation date.
- The circumstances of the sale—whether it was at arm's-length with a knowledgeable buyer and seller, with neither having to act.
- The conditions of the market in which the sale was made—whether unusually inflated or deflated.

The comparable sales method of valuing real estate is explained later under *Valuation of Various Kinds of Property.*

Example 1. Mary Black, who is not a book dealer, paid a promoter $10,000 for 500 copies of a single edition of a modern translation of the Bible. The promoter had claimed that the price was considerably less than the "retail" price, and gave her a statement that the books had a total retail value of $30,000. The promoter advised her that if she kept the Bibles for more than 1 year and then gave them to a qualified organization, she could claim a charitable deduction for the "retail" price of $30,000. Thirteen months later she gave all the Bibles to a church that she selected from a list provided by the promoter. At the time of her donation, wholesale dealers were selling similar quantities of Bibles to the general public for $10,000.

The FMV of the Bibles is $10,000, the price at which similar quantities of Bibles were being sold to others at the time of the contribution.

Example 2. The facts are the same as in Example 1, except that the promoter gave Mary Black a second option. The promoter said that if Mary wanted a charitable deduction within 1 year of the purchase, she could buy the 500 Bibles at the "retail" price of $30,000, paying only $10,000 in cash and giving a promissory note for the remaining $20,000. The principal and interest on the note would not be due for 12 years. According to the promoter, Mary could then, within 1 year of the purchase, give the Bibles to a qualified organization and claim the full $30,000 retail price as a charitable contribution. She purchased the Bibles under the second option and, 3 months later, gave them to a church, which will use the books for church purposes.

At the time of the gift, the promoter was selling similar lots of Bibles for either $10,000 or $30,000. The difference between the two prices was solely at the discretion of the buyer. The promoter was a willing seller for $10,000. Therefore, the value of Mary's contribution of the Bibles is $10,000, the amount at which similar lots of Bibles could be purchased from the promoter by members of the general public.

Replacement Cost

The cost of buying, building, or manufacturing property similar to the donated item should be considered in determining FMV. However, there must be a reasonable relationship between the replacement cost and the FMV.

The replacement cost is the amount it would cost to replace the donated item on the valuation date. Often there is no relationship between the replacement cost and the FMV. If the supply of the donated property is more or less than the demand for it, the replacement cost becomes less important.

To determine the replacement cost of the donated property, find the "estimated replacement cost new." Then subtract from this figure an amount for depreciation due to the physical condition and obsolescence of the donated property. You should be able to show the relationship between the depreciated replacement cost and the FMV, as well as how you arrived at the "estimated replacement cost new."

Opinions of Experts

Generally, the weight given to an expert's opinion on matters such as the authenticity of a coin or a work of art, or the most profitable and best use of a piece of real estate, depends on the knowledge and competence of the expert and the thoroughness with which the opinion is supported by experience and facts. For an expert's opinion to deserve much weight, the facts must support the opinion. For additional information, see *Appraisals,* later.

Problems in Determining Fair Market Value

There are a number of problems in determining the FMV of donated property.

Unusual Market Conditions

The sale price of the property itself in an arm's-length transaction in an open market is often the best evidence of its value. When you rely on sales of comparable property, the sales must have been made in an open market. If those sales were made in a market that was artificially supported or stimulated so as not to be truly representative, the prices at which the sales were made will not indicate the FMV.

For example, liquidation sale prices usually do not indicate the FMV. Also, sales of stock under unusual circumstances, such as sales of small lots, forced sales, and sales in a restricted market, may not represent the FMV.

Selection of Comparable Sales

Using sales of comparable property is an important method for determining the FMV of donated property. However, the amount of weight given to a sale depends on the degree of similarity between the comparable and the donated properties. The degree of similarity must be close enough so that this selling price would have been given consideration by reasonably well-informed buyers or sellers of the property.

Example. You give a rare, old book to your former college. The book is a third edition and is in poor condition because of a missing back cover. You discover that there was a sale for $300, near the valuation date, of a first edition of the book that was in good condition. Although the contents are the same, the books are not at all similar because of the different editions and their physical condition. Little consideration would be given to the selling price of the $300 property by knowledgeable buyers or sellers.

Future Events

You may not consider unexpected events happening after your donation of property in making the valuation. You may consider only the facts known at the time of the gift, and those that could be reasonably expected at the time of the gift.

Example. You give farmland to a qualified charity. The transfer provides that your mother will have the right to all income and full use of the property for her life. Even though your mother dies 1 week after the transfer, the value of the property on the date it is given is its present value, subject to the life interest as estimated from actuarial tables. You may not take a higher deduction because the charity received full use and possession of the land only 1 week after the transfer.

Using Past Events to Predict the Future

A common error is to rely too much on past events that do not fairly reflect the probable future earnings and FMV.

Example. You give all your rights in a successful patent to your favorite charity. Your records show that before the valuation date there were three stages in the patent's history of earnings. First, there was rapid growth in earnings when the invention was introduced. Then, there was a period of high earnings when the invention was being exploited. Finally, there was a decline in earnings when competing inventions were introduced. The entire history of earnings may be relevant in estimating the future earnings. However, the appraiser must not rely too much on the stage of rapid growth in earnings, or of high earnings. The market conditions at those times do not represent the condition of the market at the valuation date. What is most significant is the trend of decline in earnings up to the valuation date. For more information about donations of patents, see *Patents,* later.

Valuation of Various Kinds of Property

This section contains information on determining the FMV of ordinary kinds of donated property. For information on appraisals, see *Appraisals,* later.

Household Goods

The FMV of used household goods, such as furniture, appliances, and linens, is usually much lower than the price paid when new. Such used property may have little or no market value because of its worn condition. It may be out of style or no longer useful.

You cannot take a deduction for household goods donated after August 17, 2006, unless they are in good used condition or better. A household good that is not in good used condition or better for which you take a deduction of more than $500 requires a qualified appraisal. See *Deduction over $500 for certain clothing or household items*, later.

If the property is valuable because it is old or unique, see the discussion under *Paintings, Antiques, and Other Objects of Art.*

Used Clothing

Used clothing and other personal items are usually worth far less than the price you paid for them. Valuation of items of clothing does not lend itself to fixed formulas or methods.

The price that buyers of used items actually pay in used clothing stores, such as consignment or thrift shops, is an indication of the value.

You cannot take a deduction for clothing donated after August 17, 2006, unless it is in good used condition or better. An item of clothing that is not in good used condition or better for which you take a deduction of more than $500 requires a qualified appraisal. See *Deduction over $500 for certain clothing or household items,* later.

For valuable furs or very expensive gowns, a Form 8283 may have to be sent with your tax return.

Jewelry and Gems

Jewelry and gems are of such a specialized nature that it is almost always necessary to get an appraisal by a specialized jewelry appraiser. The appraisal should describe, among other things, the style of the jewelry, the cut and setting of the gem, and whether it is now in fashion. If not in fashion, the possibility of having the property redesigned, recut, or reset should be reported in the appraisal. The stone's coloring, weight, cut, brilliance, and flaws should be reported and analyzed. Sentimental personal value has no effect on FMV. But if the jewelry was owned by a famous person, its value might increase.

Paintings, Antiques, and Other Objects of Art

Your deduction for contributions of paintings, antiques, and other objects of art, should be supported by a written appraisal from a qualified and reputable source, unless the deduction is $5,000 or less. Examples of information that should be included in appraisals of art objects—paintings in particular—are found later under *Qualified Appraisal.*

Art valued at $20,000 or more. If you claim a deduction of $20,000 or more for donations of art, you must attach a complete copy of the signed appraisal to your return. For individual objects valued at $20,000 or more, a photograph of a size and quality fully showing the object, preferably an 8 x 10 inch color photograph or a color transparency no smaller than 4 x 5 inches, must be provided upon request.

Art valued at $50,000 or more. If you donate an item of art that has been appraised at $50,000 or more, you can request a Statement of Value for that item from the IRS. You must request the statement before filing the tax return that reports the donation. Your request must include the following.

- A copy of a qualified appraisal of the item. See *Qualified Appraisal,* later.
- A $2,500 check or money order payable to the Internal Revenue Service for the user fee that applies to your request regarding one, two, or three items of art. Add $250 for each item in excess of three.
- A completed Form 8283, Section B.
- The location of the IRS territory that has examination responsibility for your return.

If your request lacks essential information, you will be notified and given 30 days to provide the missing information.

Send your request to:

Internal Revenue Service
Attention: Art Appraisal (C:AP:ART)
P.O. Box 27720
McPherson Station
Washington, DC 20038

Refunds. You can withdraw your request for a Statement of Value at any time before it is issued. However, the IRS will not refund the user fee if you do.

If the IRS declines to issue a Statement of Value in the interest of efficient tax administration, the IRS will refund the user fee.

Authenticity. The authenticity of the donated art must be determined by the appraiser.

Physical condition. Important items in the valuation of antiques and art are physical condition and extent of restoration. These have a significant effect on the value and must be fully reported in an appraisal. An antique in damaged condition, or lacking the "original brasses," may be worth much less than a similar piece in excellent condition.

Art appraisers. More weight will usually be given to an appraisal prepared by an individual specializing in the kind and price range of the art being appraised. Certain art dealers or appraisers specialize, for example, in old masters, modern art, bronze sculpture, etc. Their opinions on the authenticity and desirability of such art would usually be given more weight than the opinions of more generalized art dealers or appraisers. They can report more recent comparable sales to support their opinion.

To identify and locate experts on unique, specialized items or collections, you may wish to use the current Official Museum Directory of the American Association of Museums. It lists museums both by state and by category.

To help you locate a qualified appraiser for your donation, you may wish to ask an art historian at a nearby college or the director or curator of a local museum. The Yellow Pages often list specialized art and antique dealers, auctioneers, and art appraisers. You may be able to find a qualified appraiser on the Internet. You may also contact associations of dealers for guidance.

Collections

Since many kinds of hobby collections may be the subject of a charitable donation, it is not possible to discuss all of the possible collectibles in this publication. Most common are rare books, autographs, sports memorabilia, dolls, manuscripts, stamps, coins, guns, phonograph records, and natural history items. Many of the elements of valuation that apply to paintings and other objects of art, discussed earlier, also apply to miscellaneous collections.

Reference material. Publications available to help you determine the value of many kinds of collections include catalogs, dealers' price lists, and specialized hobby periodicals. When using one of these price guides, you must use the current edition at the date of contribution. However, these sources are not always reliable indicators of FMV and should be supported by other evidence.

For example, a dealer may sell an item for much less than is shown on a price list, particularly after the item has remained unsold for a long time. The price an item sold for in an auction may have been the result of a rigged sale or a mere bidding duel. The appraiser must analyze the reference material, and recognize and make adjustments for misleading entries. If you are donating a valuable collection, you should get an appraisal. If your donation appears to be of little value, you may be able to make a satisfactory valuation using reference materials available at a state, city, college, or museum library.

Stamp collections. Most libraries have catalogs or other books that report the publisher's estimate of values. Generally, two price levels are shown for each stamp: the price postmarked and the price not postmarked. Stamp dealers generally know the value of their merchandise and are able to prepare satisfactory appraisals of valuable collections.

Coin collections. Many catalogs and other reference materials show the writer's or publisher's opinion of the value of coins on or near the date of the publication. Like many other collectors' items, the value of a coin depends on the demand for it, its age, and its rarity. Another important factor is the coin's condition. For example, there is a great difference in the value of a coin that is in mint condition and a similar coin that is only in good condition.

Catalogs usually establish a category for coins, based on their physical condition—mint or uncirculated, extremely fine, very fine, fine, very good, good, fair, or poor—with a different valuation for each category.

Books. The value of books is usually determined by selecting comparable sales and adjusting the prices according to the differences between the comparable sales and the item being evaluated. This is difficult to do and, except for a collection of little value, should be done by a specialized appraiser. Within the general category of literary property, there are dealers who specialize in certain areas, such as Americana, foreign imports, Bibles, and scientific books.

Modest value of collection. If the collection you are donating is of modest value, not requiring a written appraisal, the following information may help you in determining the FMV.

A book that is very old, or very rare, is not necessarily valuable. There are many books that are very old or rare, but that have little or no market value.

Condition of book. The condition of a book may have a great influence on its value. Collectors are interested in items that are in fine, or at least good, condition. When a book has a missing page, a loose binding, tears, stains, or is otherwise in poor condition, its value is greatly lowered.

Other factors. Some other factors in the valuation of a book are the kind of binding (leather, cloth, paper), page edges, and illustrations (drawings and photographs). Collectors usually want first editions of books. However, because of changes or additions, other editions are sometimes worth as much as, or more than, the first edition.

Manuscripts, autographs, diaries, and similar items. When these items are handwritten, or at least signed by famous people, they are often in demand and are valuable. The writings of unknowns also may be of value if they are of unusual historical or literary importance. Determining the value of such material is difficult. For example, there may be a great difference in value between two diaries that were kept by a famous person—one kept during childhood and the other during a later period in his or her life. The appraiser determines a value in these cases by applying knowledge and judgment to such factors as comparable sales and conditions.

Signatures. Signatures, or sets of signatures, that were cut from letters or other papers usually have little or no value. But complete sets of the signatures of U.S. presidents are in demand.

Cars, Boats, and Aircraft

If you donate a car, a boat, or an aircraft to a charitable organization, its FMV must be determined.

Certain commercial firms and trade organizations publish monthly or seasonal guides for different regions of the country, containing complete dealer sale prices or dealer average prices for recent model years. Prices are reported for each make, model, and year. These guides also provide estimates for adjusting for unusual equipment, unusual mileage, and physical condition. The prices are not "official," and these publications are not considered an appraisal of any specific donated property. But they do provide clues for making an appraisal and suggest relative prices for comparison with current sales and offerings in your area.

These publications are sometimes available from public libraries or at a bank, credit union, or finance company. You can also find pricing information about used cars on the Internet.

An acceptable measure of the FMV of a donated car, boat, or airplane is an amount not in excess of the price listed in a used vehicle pricing guide for a private party sale, not the dealer retail value, of a similar vehicle. However, the FMV may be less than that amount if the vehicle has engine trouble, body damage, high mileage, or any type of excessive wear. The FMV of a donated vehicle is the same as the price listed in a used vehicle pricing guide for a private party sale only if the guide lists a sales price for a vehicle that is the same make, model, and year, sold in the same area, in the same condition, with the same or similar options or accessories, and with the same or similar warranties as the donated vehicle.

Example. You donate a used car in poor condition to a local high school for use by students studying car repair. A used car guide shows the dealer retail value for this type of car in poor condition is $1,600. However, the guide shows the price for a private party sale of the car is only $750. The FMV of the car is considered to be no more than $750.

Boats. Except for inexpensive small boats, the valuation of boats should be based on an appraisal by a marine surveyor because the physical condition is so critical to the value.

More information. Your deduction for a donated car, boat, or airplane generally is limited to the gross proceeds from its sale by the qualified organization. This rule applies if the claimed value of the donated vehicle is more than $500. In certain cases, you can deduct the vehicle's FMV. For details, see Publication 526.

Inventory

If you donate any inventory item to a charitable organization, the amount of your deductible contribution generally is the FMV of the item, minus any gain you would have realized if you had sold the item at its FMV on the date of the gift. For more information, see Publication 526.

Patents

To determine the FMV of a patent, you must take into account, among other factors:

- Whether the patented technology has been made obsolete by other technology;
- Any restrictions on the donee's use of, or ability to transfer, the patented technology; and
- The length of time remaining before the patent expires.

However, your deduction for a donation of a patent or other intellectual property is its FMV, minus any gain you would have realized if you had sold the property at its FMV on the date of the gift. Generally, this means your deduction is the lesser of the property's FMV or its basis. For details, see Publication 526.

Stocks and Bonds

The value of stocks and bonds is the FMV of a share or bond on the valuation date. See *Date of contribution,* earlier, under *What Is Fair Market Value (FMV).*

Selling prices on valuation date. If there is an active market for the contributed stocks or bonds on a stock exchange, in an over-the-counter market, or elsewhere, the FMV of each share or bond is the average price between the highest and lowest quoted selling prices on the valuation date. For example, if the highest selling price for a share was $11, and the lowest $9, the average price is $10. You get the average price by adding $11 and $9 and dividing the sum by 2.

No sales on valuation date. If there were no sales on the valuation date, but there were sales within a reasonable period before and after the valuation date, you determine FMV by taking the average price between the highest and lowest sales prices on the nearest date before and on the nearest date after the valuation date. Then you weight these averages in inverse order by the respective number of trading days between the selling dates and the valuation date.

Example. On the day you gave stock to a qualified organization, there were no sales of the stock. Sales of the stock nearest the valuation date took place two trading days before the valuation date at an average selling price of $10 and three trading days after the valuation date at an average selling price of $15. The FMV on the valuation date was $12, figured as follows:

[(3 x $10) + (2 x $15)] ÷ 5 = $12

Listings on more than one stock exchange. Stocks or bonds listed on more than one stock exchange are valued based on the prices of the exchange on which they are principally dealt. This applies if these prices are published in a generally available listing or publication of general circulation. If this is not applicable, and the stocks or bonds are reported on a composite listing of combined exchanges in a publication of general circulation, use the composite list. See also *Unavailable prices or closely held corporation,* later.

Bid and asked prices on valuation date. If there were no sales within a reasonable period before and after the valuation date, the FMV is the average price between the bona fide bid and asked prices on the valuation date.

Example. Although there were no sales of Blue Corporation stock on the valuation date, bona fide bid and asked prices were available on that date of $14 and $16, respectively. The FMV is $15, the average price between the bid and asked prices.

No prices on valuation date. If there were no prices available on the valuation date, you determine FMV by taking the average prices between the bona fide bid and asked prices on the closest trading date before and after the valuation date. Both dates must be within a reasonable period. Then you weight these averages in inverse order by the respective number of trading days between the bid and asked dates and the valuation date.

Example. On the day you gave stock to a qualified organization, no prices were available. Bona fide bid and asked prices 3 days before the valuation date were $10 and 2 days after the valuation date were $15. The FMV on the valuation date is $13, figured as follows:

[(2 x $10) + (3 x $15)] ÷ 5 = $13

Prices only before or after valuation date, but not both. If no selling prices or bona fide bid and asked prices are available on a date within a reasonable period before the valuation date, but are available on a date within a reasonable period after the valuation date, or vice versa, then the average price between the highest and lowest of such available prices may be treated as the value.

Large blocks of stock. When a large block of stock is put on the market, it may lower the selling price of the stock if the supply is greater than the demand. On the other hand, market forces may exist that will afford higher prices for large blocks of stock. Because of the many factors to be considered, determining the value of large blocks of stock usually requires the help of experts specializing in underwriting large quantities of securities, or in trading in the securities of the industry of which the particular company is a part.

Unavailable prices or closely held corporation. If selling prices or bid and asked prices are not available, or if securities of a closely held corporation are involved, determine the FMV by considering the following factors.

- For bonds, the soundness of the security, the interest yield, the date of maturity, and other relevant factors.
- For shares of stock, the company's net worth, prospective earning power and dividend-paying capacity, and other relevant factors.

Other factors. Other relevant factors include:

- The nature and history of the business, especially its recent history,
- The goodwill of the business,
- The economic outlook in the particular industry,
- The company's position in the industry, its competitors, and its management, and
- The value of securities of corporations engaged in the same or similar business.

For preferred stock, the most important factors are its yield, dividend coverage, and protection of its liquidation preference.

You should keep complete financial and other information on which the valuation is based. This includes copies of reports of examinations of the company made by accountants, engineers, or any technical experts on or close to the valuation date.

Restricted securities. Some classes of stock cannot be traded publicly because of restrictions imposed by the Securities and Exchange Commission, or by the corporate charter or a trust agreement. These restricted securities usually trade at a discount in relation to freely traded securities.

To arrive at the FMV of restricted securities, factors that you must consider include the resale provisions found in the restriction agreements, the relative negotiating strengths of the buyer and seller, and the market experience of freely traded securities of the same class as the restricted securities.

Real Estate

Because each piece of real estate is unique and its valuation is complicated, a detailed appraisal by a professional appraiser is necessary.

The appraiser must be thoroughly trained in the application of appraisal principles and theory. In some instances the opinions of equally qualified appraisers may carry unequal weight, such as when one appraiser has a better knowledge of local conditions.

The appraisal report must contain a complete description of the property, such as street address, legal description, and lot and block number, as well as physical features, condition, and dimensions. The use to which the property is put, zoning and permitted uses, and its potential use for other higher and better uses are also relevant.

In general, there are three main approaches to the valuation of real estate. An appraisal may require the combined use of two or three methods rather than one method only.

1. Comparable Sales

The comparable sales method compares the donated property with several similar properties that have been sold. The selling prices, after adjustments for differences in date of sale, size, condition, and location, would then indicate the estimated FMV of the donated property.

If the comparable sales method is used to determine the value of unimproved real property (land without significant buildings, structures, or any other improvements that add to its value), the appraiser should consider the following factors when comparing the potential comparable property and the donated property:

- Location, size, and zoning or use restrictions,
- Accessibility and road frontage, and available utilities and water rights,
- Riparian rights (right of access to and use of the water by owners of land on the bank of a river) and existing easements, rights-of-way, leases, etc.,
- Soil characteristics, vegetative cover, and status of mineral rights, and
- Other factors affecting value.

For each comparable sale, the appraisal must include the names of the buyer and seller, the deed book and page number, the date of sale and selling price, a property description, the amount and terms of mortgages, property surveys, the assessed value, the tax rate, and the assessor's appraised FMV.

The comparable selling prices must be adjusted to account for differences between the sale property and the donated property. Because differences of opinion may arise between appraisers as to the degree of comparability and the amount of the adjustment considered necessary for comparison purposes, an appraiser should document each item of adjustment.

Only comparable sales having the least adjustments in terms of items and/or total dollar adjustments should be considered as comparable to the donated property.

2. Capitalization of Income

This method capitalizes the net income from the property at a rate that represents a fair return on the particular investment at the particular time, considering the risks involved. The key elements are the determination of the income to be capitalized and the rate of capitalization.

3. Replacement Cost New or Reproduction Cost Minus Observed Depreciation

This method, used alone, usually does not result in a determination of FMV. Instead, it generally tends to set the upper limit of value, particularly in periods of rising costs, because it is reasonable to assume that an informed buyer will not pay more for the real estate than it would cost to reproduce a similar property. Of course, this reasoning does not apply if a similar property cannot be created because of location, unusual construction, or some other reason. Generally, this method serves to support the value determined from other methods. When the replacement cost method is applied to improved realty, the land and improvements are valued separately.

The replacement cost of a building is figured by considering the materials, the quality of workmanship, and the number of square feet or cubic feet in the building. This cost represents the total cost of labor and material, overhead, and profit. After the replacement cost has been figured, consideration must be given to the following factors:

- Physical deterioration—the wear and tear on the building itself,
- Functional obsolescence—usually in older buildings with, for example, inadequate lighting, plumbing, or heating, small rooms, or a poor floor plan, and
- Economic obsolescence—outside forces causing the whole area to become less desirable.

Interest in a Business

The FMV of any interest in a business, whether a sole proprietorship or a partnership, is the amount that a willing buyer would pay for the interest to a willing seller after consideration of all relevant factors. The relevant factors to be considered in valuing the business are:

- The FMV of the assets of the business,
- The demonstrated earnings capacity of the business, based on a review of past and current earnings, and
- The other factors used in evaluating corporate stock, if they apply.

The value of the goodwill of the business should also be taken into consideration. You should keep complete financial and other information on which you base the valuation. This includes copies of reports of examinations of the business made by accountants, engineers, or any technical experts on or close to the valuation date.

Annuities, Interests for Life or Terms of Years, Remainders, and Reversions

The value of these kinds of property is their present value, except in the case of annuities under contracts issued by companies regularly engaged in their sale. The valuation of these commercial annuity contracts and of insurance policies is discussed later under *Certain Life Insurance and Annuity Contracts.*

To determine present value, you must know the applicable interest rate and use actuarial tables.

Interest rate. The applicable interest rate varies. It is announced monthly in a news release and published in the Internal Revenue Bulletin as a Revenue Ruling. The interest rate to use is under the heading "Rate Under Section 7520" for a given month and year. You can call the IRS office at 1-800-829-1040 to obtain this rate.

Actuarial tables. You need to refer to actuarial tables to determine a qualified interest in the form of an annuity, any interest for life or a term of years, or any remainder interest to a charitable organization.

Use the valuation tables set forth in IRS Publications 1457, Actuarial Values (Book Aleph), and 1458, Actuarial Values (Book Beth). Both of these publications provide tables containing actuarial factors to be used in determining the present value of an annuity, an interest for life or for a term of years, or a remainder or reversionary interest. For qualified charitable transfers, you can use the factor for the month in which you made the contribution or for either of the 2 months preceding that month.

Publication 1457 also contains actuarial factors for computing the value of a remainder interest in a charitable remainder annuity trust and a pooled income fund. Publication 1458 contains the factors for valuing the remainder interest in a charitable remainder unitrust. You can download Publications 1457 and 1458 from *www.irs.gov.* In addition, they are available for purchase via the website of the U. S. Government Printing Office, by phone at (202) 512-1800, or by mail from the:

Superintendent of Documents
P.O. Box 371954
Pittsburgh, PA 15250-7954

Tables containing actuarial factors for transfers to pooled income funds may also be found in Income Tax Regulation 1.642(c)-6(e)(6), transfers to charitable remainder unitrusts in Regulation 1.664-4(e), and other transfers in Regulation 20.2031-7(d)(6).

Special factors. If you need a special factor for an actual transaction, you can request a letter ruling. Be sure to include the date of birth of each person the duration of whose life may affect the value of the interest. Also include copies of the relevant instruments. IRS charges a user fee for providing special factors.

For more information about requesting a ruling, see Revenue Procedure 2006-1 (or annual update), 2006-1 I.R.B. 1. Revenue Procedure 2006-1 is available at *www.irs.gov/irb/2006-01_IRB/ar06.html.*

For information on the circumstances under which a charitable deduction may be allowed for the donation of a partial interest in property not in trust, see *Partial Interest in Property Not in Trust,* later.

Certain Life Insurance and Annuity Contracts

The value of an annuity contract or a life insurance policy issued by a company regularly engaged in the sale of such contracts or policies is the amount that company would charge for a comparable contract.

But if the donee of a life insurance policy may reasonably be expected to cash the policy rather than hold it as an investment, then the FMV is the cash surrender value rather than the replacement cost.

If an annuity is payable under a combination annuity contract and life insurance policy (for example, a retirement income policy with a death benefit) and there was no insurance element when it was transferred to the charity, the policy is treated as an annuity contract.

Partial Interest in Property Not in Trust

Generally, no deduction is allowed for a charitable contribution, not made in trust, of less than your entire interest in property. However, this does not apply to a transfer of less than your entire interest if it is a transfer of:

- A remainder interest in your personal residence or farm,
- An undivided part of your entire interest in property, or
- A qualified conservation contribution.

Remainder Interest in Real Property

The amount of the deduction for a donation of a remainder interest in real property is the FMV of the remainder interest at the time of the contribution. To determine this value, you must know the FMV of the property on the date of the contribution. Multiply this value by the appropriate factor. Publications 1457 and 1458 contain these factors.

You must make an adjustment for depreciation or depletion using the factors shown in Publication 1459, Actuarial Values (Book Gimel). You can use the factors for the month in which you made the contribution or for either of the two months preceding that month. See the earlier discussion on *Annuities, Interests for Life or Terms of Years, Remainders, and Reversions.* You can download Publication 1459 from *www.irs.gov.*

For this purpose, the term "depreciable property" means any property subject to wear and tear or obsolescence, even if not used in a trade or business or for the production of income.

If the remainder interest includes both depreciable and nondepreciable property, for example a house and land, the FMV must be allocated between each kind of property at the time of the contribution. This rule also applies to a gift of a remainder interest that includes property that is part depletable and part not depletable. Take into account depreciation or depletion only for the property that is subject to depreciation or depletion.

For more information, see section 1.170A-12 of the Income Tax Regulations.

Undivided Part of Your Entire Interest

A contribution of an undivided part of your entire interest in property must consist of a part of each and every substantial interest or right you own in the property. It must extend over the entire term of your interest in the property. For example, you are entitled to the income from certain property for your life (life estate) and you contribute 20% of that life estate to a qualified organization. You can claim a deduction for the contribution if you do not have any other interest in the property. To figure the value of a contribution involving a partial interest, see Publication 1457.

If the only interest you own in real property is a remainder interest and you transfer part of that interest to a qualified organization, see the previous discussion on valuation of a remainder interest in real property.

Qualified Conservation Contribution

A qualified conservation contribution is a contribution of a qualified real property interest to a qualified organization to be used only for conservation purposes.

Qualified organization. For purposes of a qualified conservation contribution, a qualified organization is:

- A governmental unit,
- A publicly supported charitable, religious, scientific, literary, educational, etc., organization, or
- An organization that is controlled by, and operated for the exclusive benefit of, a governmental unit or a publicly supported charity.

The organization also must have a commitment to protect the conservation purposes of the donation and must have the resources to enforce the restrictions.

Conservation purposes. Your contribution must be made only for one of the following conservation purposes.

- Preserving land areas for outdoor recreation by, or for the education of, the general public.
- Protecting a relatively natural habitat of fish, wildlife, or plants, or a similar ecosystem.
- Preserving open space, including farmland and forest land, if it yields a significant public benefit. It must be either for the scenic enjoyment of the general public or under a clearly defined federal, state, or local governmental conservation policy.
- Preserving a historically important land area or a certified historic structure. There must be some visual public access to the property. Factors used in determining the type and amount of public access required include the historical significance of the property, the remoteness or accessibility of the site, and the extent to which intrusions on the privacy of individuals living on the property would be unreasonable.

Building in registered historic district. A contribution after July 25, 2006, of a qualified real property interest that is an easement or other restriction on the exterior of a building in a registered historic district is deductible only if it meets all of the following three conditions.

1. The restriction must preserve the entire exterior of the building and must prohibit any change to the exterior of the building that is inconsistent with its historical character.
2. You and the organization receiving the contribution must enter into a written agreement certifying, that the organization is a qualified organization and that it has the resources and commitment to maintain the property as donated.
3. If you make the contribution in a tax year beginning after August 17, 2006, you must include with your return:
   a. A qualified appraisal,
   b. Photographs of the building's entire exterior, and
   c. A description of all restrictions on development of the building, such as zoning laws and restrictive covenants.

If you make this type of contribution after February 12, 2007, and claim a deduction of more than $10,000, your deduction will not be allowed unless you pay a $500 filing fee. See Form 8283-V, Payment Voucher for Filing Fee Under Section 170(f)(13), and its instructions.

Qualified real property interest. This is any of the following interests in real property.

1. Your entire interest in real estate other than a mineral interest (subsurface oil, gas, or other minerals, and the right of access to these minerals).
2. A remainder interest.
3. A restriction (granted in perpetuity) on the use that may be made of the real property.

Valuation. A qualified real property interest described in (1) should be valued in a manner that is consistent with the type of interest transferred. If you transferred all the interest in the property, the FMV of the property is the amount of the contribution. If you do not transfer the mineral interest, the FMV of the surface rights in the property is the amount of the contribution.

If you owned only a remainder interest or an income interest (life estate), see *Undivided Part of Your Entire Interest,* earlier. If you owned the entire property but transferred only a remainder interest (item (2)), see *Remainder Interest in Real Property,* earlier.

In determining the value of restrictions, you should take into account the selling price in arm's-length transactions of other properties that have comparable restrictions. If there are no comparable sales, the restrictions are valued indirectly as the difference between the FMVs of the property involved before and after the grant of the restriction.

The FMV of the property before contribution of the restriction should take into account not only current use but the likelihood that the property, without the restriction, would be developed. You should also consider any zoning, conservation, or historical preservation laws that would restrict development. Granting an easement may increase, rather than reduce, the value of property, and in such a situation no deduction would be allowed.

Example. You own 10 acres of farmland. Similar land in the area has an FMV of $2,000 an acre. However, land in the general area that is restricted solely to farm use has an FMV of $1,500 an acre. Your county wants to preserve open space and prevent further development in your area.

You grant to the county an enforceable open space easement in perpetuity on 8 of the 10 acres, restricting its use to farmland. The value of this easement is $4,000, determined as follows:

FMV of the property before granting easement:		
$2,000 × 10 acres		$20,000
FMV of the property after granting easement:		
$1,500 × 8 acres	$12,000	
$2,000 × 2 acres	4,000	16,000
Value of easement		$4,000

If you later transfer in fee your remaining interest in the 8 acres to another qualified organization, the FMV of your remaining interest is the FMV of the 8 acres reduced by the FMV of the easement granted to the first organization.

More information. For more information about qualified conservation contributions, see Publication 526.

Appraisals

Appraisals are not necessary for items of property for which you claim a deduction of $5,000 or less. (There is one exception, described next, for certain clothing and household items.) However, you generally will need an appraisal for donated property for which you claim a deduction of more than $5,000. There are exceptions. See *Deductions of More Than $5,000,* later.

The weight given an appraisal depends on the completeness of the report, the qualifications of the appraiser, and the appraiser's demonstrated knowledge of the donated property. An appraisal must give all the facts on which to base an intelligent judgment of the value of the property.

The appraisal will not be given much weight if:

- All the factors that apply are not considered,
- The opinion is not supported with facts, such as purchase price and comparable sales, or

- The opinion is not consistent with known facts.

The appraiser's opinion is never more valid than the facts on which it is based; without these facts it is simply a guess.

The opinion of a person claiming to be an expert is not binding on the Internal Revenue Service. All facts associated with the donation must be considered.

Deduction over $500 for certain clothing or household items. You must include with your return a qualified appraisal of any single item of clothing or any household item that is not in good used condition or better, that you donated after August 17, 2006, and for which you deduct more than $500. See *Household Goods* and *Used Clothing*, earlier.

Cost of appraisals. You may not take a charitable contribution deduction for fees you pay for appraisals of your donated property. However, these fees may qualify as a miscellaneous deduction, subject to the 2% limit, on Schedule A (Form 1040) if paid to determine the amount allowable as a charitable contribution.

Deductions of More Than $5,000

Generally, if the claimed deduction for an item or group of similar items of donated property is more than $5,000, you must get a qualified appraisal made by a qualified appraiser, and you must attach Section B of Form 8283 to your tax return. There are exceptions, discussed later. You should keep the appraiser's report with your written records. Records are discussed in Publication 526.

The phrase "similar items" means property of the same generic category or type (whether or not donated to the same donee), such as stamp collections, coin collections, lithographs, paintings, photographs, books, nonpublicly traded stock, nonpublicly traded securities other than nonpublicly traded stock, land, buildings, clothing, jewelry, furniture, electronic equipment, household appliances, toys, everyday kitchenware, china, crystal, or silver. For example, if you give books to three schools and you deduct $2,000, $2,500, and $900, respectively, your claimed deduction is more than $5,000 for these books. You must get a qualified appraisal of the books and for each school you must attach a fully completed Form 8283, Section B, to your tax return.

Exceptions. You do not need an appraisal if the property is:

- Nonpublicly traded stock of $10,000 or less,
- A vehicle (including a car, boat, or airplane) for which your deduction is limited to the gross proceeds from its sale,
- Qualified intellectual property, such as a patent,
- Certain publicly traded securities described next,
- Inventory and other property donated by a corporation that are "qualified contributions" for the care of the ill, the needy, or infants, within the meaning of section 170(e)(3)(A) of the Internal Revenue Code, or
- Stock in trade, inventory, or property held primarily for sale to customers in the ordinary course of your trade or business.

Although an appraisal is not required for the types of property just listed, you must provide certain information about a donation of any of these types of property on Form 8283.

Publicly traded securities. Even if your claimed deduction is more than $5,000, neither a qualified appraisal nor Section B of Form 8283 is required for publicly traded securities that are:

- Listed on a stock exchange in which quotations are published on a daily basis,
- Regularly traded in a national or regional over-the-counter market for which published quotations are available, or
- Shares of an open-end investment company (mutual fund) for which quotations are published on a daily basis in a newspaper of general circulation throughout the United States.

Publicly traded securities that meet these requirements must be reported on Form 8283, Section A.

A qualified appraisal is not required, but Form 8283, Section B, Parts I and IV, must be completed, for an issue of a security that does not meet the requirements just listed but does meet these requirements:

1. The issue is regularly traded during the computation period (defined later) in a market for which there is an "interdealer quotation system" (defined later),
2. The issuer or agent computes the "average trading price" (defined later) for the same issue for the computation period,
3. The average trading price and total volume of the issue during the computation period are published in a newspaper of general circulation throughout the United States, not later than the last day of the month following the end of the calendar quarter in which the computation period ends,
4. The issuer or agent keeps books and records that list for each transaction during the computation period the date of settlement of the transaction, the name and address of the broker or dealer making the market in which the transaction occurred, and the trading price and volume, and
5. The issuer or agent permits the Internal Revenue Service to review the books and records described in item (4) with respect to transactions during the computation period upon receiving reasonable notice.

An interdealer quotation system is any system of general circulation to brokers and dealers that regularly disseminates quotations of obligations by two or more identified brokers or dealers who are not related to either the issuer or agent who computes the average trading price of the security. A quotation sheet prepared and distributed by a broker or dealer in the regular course of business and containing only quotations of that broker or dealer is not an interdealer quotation system.

The average trading price is the average price of all transactions (weighted by volume), other than original issue or redemption transactions, conducted through a United States office of a broker or dealer who maintains a market in the issue of the security during the computation period. Bid and asked quotations are not taken into account.

The computation period is weekly during October through December and monthly during January through September. The weekly computation periods during October through December begin with the first Monday in October and end with the first Sunday following the last Monday in December.

Nonpublicly traded stock. If you contribute nonpublicly traded stock, for which you claim a deduction of $10,000 or less, a qualified appraisal is not required. However, you must attach Form 8283 to your tax return, with Section B, Parts I and IV, completed.

Deductions of More Than $500,000

If you claim a deduction of more than $500,000 for a donation of property, you must attach a qualified appraisal of the property to your return. This does not apply to contributions of cash, inventory, publicly traded stock, or intellectual property.

If you do not attach the appraisal, you cannot deduct your contribution, unless your failure to attach the appraisal is due to reasonable cause and not to willful neglect.

Qualified Appraisal

Generally, if the claimed deduction for an item or group of similar items of donated property is more than $5,000, you must get a qualified appraisal made by a qualified appraiser. You must also complete Form 8283, Section B, and attach it to your tax return. See *Deductions of More Than $5,000,* earlier.

A qualified appraisal is an appraisal document that:

- Is made, signed, and dated by a qualified appraiser (defined later) in accordance with generally accepted appraisal standards,
- Meets the relevant requirements of Regulations section 1.170A-13(c)(3) and Notice 2006-96, 2006-46 I.R.B. 902 (available at *www.irs.gov/irb/2006-46_IRB/ar13.html*),
- Relates to an appraisal made not earlier than 60 days before the date of contribution of the appraised property,
- Does not involve a prohibited appraisal fee, and
- Includes certain information (covered later).

You must receive the qualified appraisal before the due date, including extensions, of the return on which a charitable contribution deduction is first claimed for the donated property. If the deduction is first claimed on an amended return, the qualified appraisal must be received before the date on which the amended return is filed.

Form 8283, Section B, must be attached to your tax return. Generally, you do not need to attach the qualified appraisal itself, but you should keep a copy as long as it may be relevant under the tax law. There are four exceptions.

- If you claim a deduction of $20,000 or more for donations of art, you must attach a complete copy of the appraisal. See *Paintings, Antiques, and Other Objects of Art*, earlier.
- If you claim a deduction of more than $500,000 for a donation of property, you must attach the appraisal. See *Deductions of More Than $500,000*, earlier.
- If you claim a deduction of more than $500 for an article of clothing, or a household item, that is not in good used condition or better, that you donated after August 17, 2006, you must attach the appraisal. See *Deduction over $500 for certain clothing or household items*, earlier.
- If you claim a deduction in a tax year beginning after August 17, 2006, for an easement or other restriction on the exterior of a building in a historic district, you must attach the appraisal. See *Building in registered historic district*, earlier.

Prohibited appraisal fee. Generally, no part of the fee arrangement for a qualified appraisal can be based on a percentage of the appraised value of the property. If a fee arrangement is based on what is allowed as a deduction, after Internal Revenue Service examination or otherwise, it is treated as a fee based on a percentage of appraised value. However, appraisals are not disqualified when an otherwise prohibited fee is paid to a generally recognized association that regulates appraisers if:

- The association is not organized for profit and no part of its net earnings benefits any private shareholder or individual,
- The appraiser does not receive any compensation from the association or any other persons for making the appraisal, and
- The fee arrangement is not based in whole or in part on the amount of the appraised value that is allowed as a deduction after an Internal Revenue Service examination or otherwise.

Information included in qualified appraisal. A qualified appraisal must include the following information:

1. A description of the property in sufficient detail for a person who is not generally familiar with the type of property to determine that the property appraised is the property that was (or will be) contributed,
2. The physical condition of any tangible property,
3. The date (or expected date) of contribution,
4. The terms of any agreement or understanding entered into (or expected to be entered into) by or on behalf of the donor that relates to the use, sale, or other disposition of the donated property, including, for example, the terms of any agreement or understanding that:
   a. Temporarily or permanently restricts a donee's right to use or dispose of the donated property,
   b. Earmarks donated property for a particular use, or
   c. Reserves to, or confers upon, anyone (other than a donee organization or an organization participating with a donee organization in cooperative fundraising) any right to the income from the donated property or to the possession of the property, including the right to vote donated securities, to acquire the property by purchase or otherwise, or to designate the person having the income, possession, or right to acquire the property,
5. The name, address, and taxpayer identification number of the qualified appraiser and, if the appraiser is a partner, an employee, or an independent contractor engaged by a person other than the donor, the name, address, and taxpayer identification number of the partnership or the person who employs or engages the appraiser,
6. The qualifications of the qualified appraiser who signs the appraisal, including the appraiser's background, experience, education, and any membership in professional appraisal associations,
7. A statement that the appraisal was prepared for income tax purposes,
8. The date (or dates) on which the property was valued,
9. The appraised FMV on the date (or expected date) of contribution,
10. The method of valuation used to determine FMV, such as the income approach, the comparable sales or market data approach, or the replacement cost less depreciation approach, and
11. The specific basis for the valuation, such as any specific comparable sales transaction.

Art objects. The following are examples of information that should be included in a description of donated property. These examples are for art objects. A similar detailed breakdown should be given for other property. Appraisals of art objects—paintings in particular—should include all of the following.

1. A complete description of the object, indicating the:
   a. Size,
   b. Subject matter,
   c. Medium,
   d. Name of the artist (or culture), and
   e. Approximate date created.
2. The cost, date, and manner of acquisition.
3. A history of the item, including proof of authenticity.
4. A professional quality image of the object.
5. The facts on which the appraisal was based, such as:
   a. Sales or analyses of similar works by the artist, particularly on or around the valuation date.
   b. Quoted prices in dealer's catalogs of the artist's works or works of other artists of comparable stature.
   c. A record of any exhibitions at which the specific art object had been displayed.
   d. The economic state of the art market at the time of valuation, particularly with respect to the specific property.
   e. The standing of the artist in his profession and in the particular school or time period.

Number of qualified appraisals. A separate qualified appraisal is required for each item of property that is not included in a group of similar items of property. You need only one qualified appraisal for a group of similar items of property contributed in the same tax year, but you may get separate appraisals for each item. A qualified appraisal for a group of similar items must provide all of the required information for each item of similar property. The appraiser, however, may provide a group description for selected items the total value of which is not more than $100.

Qualified appraiser. A qualified appraiser is an individual who meets all the following requirements.

1. The individual either:
   a. Has earned an appraisal designation from a recognized professional appraiser organization for demonstrated competency in valuing the type of property being appraised, or
   b. Has met certain minimum education and experience requirements. For real property, the appraiser must be licensed or certified for the type of property being appraised in the state in which the property is located. For property other than real property, the appraiser must have successfully completed college or professional-level coursework relevant to the property being valued, must have at least 2 years of experience in the trade or business of buying, selling, or valuing the type of property being valued, and must fully describe in the appraisal his or her qualifying education and experience.
2. The individual regularly prepares appraisals for which he or she is paid.
3. The individual demonstrates verifiable education and experience in valuing the type of property being appraised. To do this, the appraiser can make a declaration in the

appraisal that, because of his or her background, experience, education, and membership in professional associations, he or she is qualified to make appraisals of the type of property being valued.

4. The individual has not been prohibited from practicing before the IRS under section 330(c) of title 31 of the United States Code at any time during the 3-year period ending on the date of the appraisal.
5. The individual is not an excluded individual.

In addition, the appraiser must complete Form 8283, Section B, Part III. More than one appraiser may appraise the property, provided that each complies with the requirements, including signing the qualified appraisal and Form 8283, Section B, Part III.

Excluded individuals. The following persons cannot be qualified appraisers with respect to particular property.

1. The donor of the property, or the taxpayer who claims the deduction.
2. The donee of the property.
3. A party to the transaction in which the donor acquired the property being appraised, unless the property is donated within 2 months of the date of acquisition and its appraised value is not more than its acquisition price. This applies to the person who sold, exchanged, or gave the property to the donor, or any person who acted as an agent for the transferor or donor in the transaction.
4. Any person employed by any of the above persons. For example, if the donor acquired a painting from an art dealer, neither the dealer nor persons employed by the dealer can be qualified appraisers for that painting.
5. Any person related under section 267(b) of the Internal Revenue Code to any of the above persons or married to a person related under section 267(b) to any of the above persons.
6. An appraiser who appraises regularly for a person in (1), (2), or (3), and who does not perform a majority of his or her appraisals made during his or her tax year for other persons.

In addition, a person is not a qualified appraiser for a particular donation if the donor had knowledge of facts that would cause a reasonable person to expect the appraiser to falsely overstate the value of the donated property. For example, if the donor and the appraiser make an agreement concerning the amount at which the property will be valued, and the donor knows that amount is more than the FMV of the property, the appraiser is not a qualified appraiser for the donation.

Appraiser penalties. An appraiser who prepares an incorrect appraisal may have to pay a penalty if:

1. The appraiser knows or should have known the appraisal would be used in connection with a return or claim for refund, and
2. The appraisal results in the 20% or 40% penalty for a valuation misstatement described later under *Penalty*.

The penalty imposed on the appraiser is the smaller of:

1. The greater of:
   a. 10% of the underpayment due to the misstatement, or
   b. $1,000, or
2. 125% of the gross income received for the appraisal.

In addition, any appraiser who falsely or fraudulently overstates the value of property described in a qualified appraisal of a Form 8283 that the appraiser has signed may be subject to a civil penalty for aiding and abetting as understatement of tax liability, and may have his or her appraisal disregarded.

Form 8283

Generally, if the claimed deduction for an item of donated property is more than $5,000, you must attach Form 8283 to your tax return and complete Section B.

If you do not attach Form 8283 to your return and complete Section B, the deduction will not be allowed unless your failure was due to reasonable cause, and not willful neglect, or was due to a good faith omission. If the IRS requests that you submit the form because you did not attach it to your return, you must comply within 90 days of the request or the deduction will be disallowed.

You must attach a separate Form 8283 for each item of contributed property that is not part of a group of similar items. If you contribute similar items of property to the same donee organization, you need attach only one Form 8283 for those items. If you contribute similar items of property to more than one donee organization, you must attach a separate form for each donee.

Internal Revenue Service Review of Appraisals

In reviewing an income tax return, the Service may accept the claimed value of the donated property, based on information or appraisals sent with the return, or may make its own determination of FMV. In either case, the Service may:

- Contact the taxpayer to get more information,
- Refer the valuation problem to a Service appraiser or valuation specialist,
- Refer the issue to the Commissioner's Art Advisory Panel (a group of dealers and museum directors who review and recommend acceptance or adjustment of taxpayers' claimed values for major paintings, sculptures, decorative arts, and antiques), or
- Contract with an independent dealer, scholar, or appraiser to appraise the property when the objects require appraisers of highly specialized experience and knowledge.

Responsibility of the Service. The Service is responsible for reviewing appraisals, but it is not responsible for making them. Supporting the FMV listed on your return is your responsibility.

The Service does not accept appraisals without question. Nor does the Service recognize any particular appraiser or organization of appraisers.

Timing of Service action. The Service generally does not approve valuations or appraisals before the actual filing of the tax return to which the appraisal applies. In addition, the Service generally does not issue advance rulings approving or disapproving such appraisals.

Exception. For a request submitted as described earlier under *Art valued at $50,000 or more,* the Service will issue a Statement of Value that can be relied on by the donor of the item of art.

Penalty

You may be liable for a penalty if you overstate the value or adjusted basis of donated property.

20% penalty. The penalty is 20% of the underpayment of tax related to the overstatement if:

- The value or adjusted basis claimed on the return is 200% (150% for returns filed after August 17, 2006) or more of the correct amount, and
- You underpaid your tax by more than $5,000 because of the overstatement.

40% penalty. The penalty is 40%, rather than 20%, if:

- The value or adjusted basis claimed on the return is 400% (200% for returns filed after August 17, 2006) or more of the correct amount, and
- You underpaid your tax by more than $5,000 because of the overstatement.

How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

Contacting your Taxpayer Advocate. The Taxpayer Advocate Service is an independent organization within the IRS whose employees assist taxpayers who are experiencing economic harm, who are seeking help in resolving tax problems that have not been resolved through normal channels, or who believe that an IRS system or procedure is not working as it should.

You can contact the Taxpayer Advocate Service by calling toll-free 1-877-777-4778 or TTY/TDD 1-800-829-4059 to see if you are eligible for assistance. You can also call or write to your local taxpayer advocate, whose phone number and address are listed in your local telephone directory and in Publication 1546, The Taxpayer Advocate Service of the IRS - How To Get Help With Unresolved Tax Problems. You can file Form 911, Application for Taxpayer Assistance Order, or ask an IRS employee to complete it on your behalf. For more information, go to *www.irs.gov/advocate.*

Low income tax clinics (LITCs). LITCs are independent organizations that provide low income taxpayers with representation in federal tax controversies with the IRS for free or for a nominal charge. The clinics also provide tax education and outreach for taxpayers with limited English proficiency or who speak English as a second language. Publication 4134, Low Income Taxpayer Clinic List, provides information on clinics in your area. It is available at *www.irs.gov* or at your local IRS office.

Free tax services. To find out what services are available, get Publication 910, IRS Guide to Free Tax Services. It contains a list of free tax publications and describes other free tax information services, including tax education and assistance programs and a list of TeleTax topics.

Internet. You can access the IRS website at *www.irs.gov* 24 hours a day, 7 days a week to:

- *E-file* your return. Find out about commercial tax preparation and *e-file* services available free to eligible taxpayers.
- Check the status of your 2006 refund. Click on *Where's My Refund.* Wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Have your 2006 tax return available because you will need to know your social security number, your filing status, and the exact whole dollar amount of your refund.
- Download forms, instructions, and publications.
- Order IRS products online.
- Research your tax questions online.
- Search publications online by topic or keyword.
- View Internal Revenue Bulletins (IRBs) published in the last few years.
- Figure your withholding allowances using our withholding calculator.
- Sign up to receive local and national tax news by email.
- Get information on starting and operating a small business.

Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call 1-800-829-3676 to order current-year forms, instructions, and publications, and prior-year forms and instructions. You should receive your order within 10 days.
- *Asking tax questions.* Call the IRS with your tax questions at 1-800-829-1040.
- *Solving problems.* You can get face-to-face help solving tax problems every business day in IRS Taxpayer Assistance Centers. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. Call your local Taxpayer Assistance Center for an appointment. To find the number, go to *www.irs.gov/localcontacts* or look in the phone book under *United States Government, Internal Revenue Service.*
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call 1-800-829-4059 to ask tax questions or to order forms and publications.
- *TeleTax topics.* Call 1-800-829-4477 to listen to pre-recorded messages covering various tax topics.
- *Refund information.* To check the status of your 2006 refund, call 1-800-829-4477 and press 1 for automated refund information or call 1-800-829-1954. Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Have your 2006 tax return available because you will need to know your social security number, your filing status, and the exact whole dollar amount of your refund.

Evaluating the quality of our telephone services. To ensure IRS representatives give accurate, courteous, and professional answers, we use several methods to evaluate the quality of our telephone services. One method is for a second IRS representative to listen in on or record random telephone calls. Another is to ask some callers to complete a short survey at the end of the call.

Walk-in. Many products and services are available on a walk-in basis.

- *Products.* You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county government offices, credit unions, and office supply stores have a collection of products available to print from a CD or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.
- *Services.* You can walk in to your local Taxpayer Assistance Center every business day for personal, face-to-face tax help. An employee can explain IRS letters, request adjustments to your tax account, or help you set up a payment plan. If you need to resolve a tax problem, have questions about how the tax law applies to your individual tax return, or you're more comfortable talking with someone in person, visit your local Taxpayer Assistance Center where you can spread out your records and talk with an IRS representative face-to-face. No appointment is necessary, but if you prefer, you can call your local Center and leave a message requesting an appointment to resolve a tax account issue. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience. To find the number, go to *www.irs.gov/localcontacts* or look in the phone book under *United States Government, Internal Revenue Service.*

Mail. You can send your order for forms, instructions, and publications to the address below. You should receive a response within 10 business days after your request is received.

National Distribution Center
P.O. Box 8903
Bloomington, IL 61702-8903

CD for tax products. You can order Publication 1796, IRS Tax Products CD, and obtain:

- A CD that is released twice so you have the latest products. The first release ships in January and the final release ships in March.
- Current-year forms, instructions, and publications.
- Prior-year forms, instructions, and publications.
- Bonus: Historical Tax Products DVD - Ships with the final release.
- Tax Map: an electronic research tool and finding aid.
- Tax law frequently asked questions.
- Tax Topics from the IRS telephone response system.
- Fill-in, print, and save features for most tax forms.
- Internal Revenue Bulletins.
- Toll-free and email technical support.

Buy the CD from National Technical Information Service (NTIS) at *www.irs.gov/cdorders* for

$25 (no handling fee) or call 1-877-CDFORMS (1-877-233-6767) toll free to buy the CD for $25 (plus a $5 handling fee). Price is subject to change.

CD for small businesses. Publication 3207, The Small Business Resource Guide CD for 2006, is a must for every small business owner or any taxpayer about to start a business. This year's CD includes:

- Helpful information, such as how to prepare a business plan, find financing for your business, and much more.
- All the business tax forms, instructions, and publications needed to successfully manage a business.
- Tax law changes for 2006.
- Tax Map: an electronic research tool and finding aid.
- Web links to various government agencies, business associations, and IRS organizations.
- "Rate the Product" survey—your opportunity to suggest changes for future editions.
- A site map of the CD to help you navigate the pages of the CD with ease.
- An interactive "Teens in Biz" module that gives practical tips for teens about starting their own business, creating a business plan, and filing taxes.

An updated version of this CD is available each year in early April. You can get a free copy by calling 1-800-829-3676 or by visiting *www.irs.gov/smallbiz.*

Index

To help us develop a more useful index, please let us know if you have ideas for index entries. See "Comments and Suggestions" in the "Introduction" for the ways you can reach us.

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Tax Publications for Individual Taxpayers

See *How To Get Tax Help* for a variety of ways to get publications, including by computer, phone, and mail.

General Guides

- **1** Your Rights as a Taxpayer
- **17** Your Federal Income Tax (For Individuals)
- **334** Tax Guide for Small Business (For Individuals Who Use Schedule C or C-EZ)
- **509** Tax Calendars for 2007
- **553** Highlights of 2006 Tax Changes
- **910** IRS Guide to Free Tax Services

Specialized Publications

- **3** Armed Forces' Tax Guide
- **54** Tax Guide for U.S. Citizens and Resident Aliens Abroad
- **225** Farmer's Tax Guide
- **463** Travel, Entertainment, Gift, and Car Expenses
- **501** Exemptions, Standard Deduction, and Filing Information
- **502** Medical and Dental Expenses (Including the Health Coverage Tax Credit)
- **503** Child and Dependent Care Expenses
- **504** Divorced or Separated Individuals
- **505** Tax Withholding and Estimated Tax
- **514** Foreign Tax Credit for Individuals
- **516** U.S. Government Civilian Employees Stationed Abroad
- **517** Social Security and Other Information for Members of the Clergy and Religious Workers
- **519** U.S. Tax Guide for Aliens
- **521** Moving Expenses
- **523** Selling Your Home
- **524** Credit for the Elderly or the Disabled
- **525** Taxable and Nontaxable Income
- **526** Charitable Contributions
- **527** Residential Rental Property
- **529** Miscellaneous Deductions
- **530** Tax Information for First-Time Homeowners
- **531** Reporting Tip Income
- **536** Net Operating Losses (NOLs) for Individuals, Estates, and Trusts
- **537** Installment Sales
- **541** Partnerships
- **544** Sales and Other Dispositions of Assets
- **547** Casualties, Disasters, and Thefts
- **550** Investment Income and Expenses
- **551** Basis of Assets
- **552** Recordkeeping for Individuals
- **554** Older Americans' Tax Guide
- **555** Community Property
- **556** Examination of Returns, Appeal Rights, and Claims for Refund
- **559** Survivors, Executors, and Administrators
- **561** Determining the Value of Donated Property
- **564** Mutual Fund Distributions
- **570** Tax Guide for Individuals With Income From U.S. Possessions
- **571** Tax-Sheltered Annuity Plans (403(b) Plans)
- **575** Pension and Annuity Income
- **584** Casualty, Disaster, and Theft Loss Workbook (Personal-Use Property)
- **587** Business Use of Your Home (Including Use by Daycare Providers)
- **590** Individual Retirement Arrangements (IRAs)
- **593** Tax Highlights for U.S. Citizens and Residents Going Abroad
- **594** What You Should Know About the IRS Collection Process
- **596** Earned Income Credit (EIC)
- **721** Tax Guide to U.S. Civil Service Retirement Benefits
- **901** U.S. Tax Treaties
- **907** Tax Highlights for Persons with Disabilities
- **908** Bankruptcy Tax Guide
- **915** Social Security and Equivalent Railroad Retirement Benefits
- **919** How Do I Adjust My Tax Withholding?
- **925** Passive Activity and At-Risk Rules
- **926** Household Employer's Tax Guide
- **929** Tax Rules for Children and Dependents
- **936** Home Mortgage Interest Deduction
- **946** How To Depreciate Property
- **947** Practice Before the IRS and Power of Attorney
- **950** Introduction to Estate and Gift Taxes
- **967** The IRS Will Figure Your Tax
- **969** Health Savings Accounts and Other Tax-Favored Health Plans
- **970** Tax Benefits for Education
- **971** Innocent Spouse Relief
- **972** Child Tax Credit
- **1542** Per Diem Rates
- **1544** Reporting Cash Payments of Over $10,000 (Received in a Trade or Business)
- **1546** The Taxpayer Advocate Service of the IRS – How to Get Help With Unresolved Tax Problems

Spanish Language Publications

- **1SP** Derechos del Contribuyente
- **579SP** Cómo Preparar la Declaración de Impuesto Federal
- **594SP** Que es lo que Debemos Saber sobre el Proceso de Cobro del IRS
- **596SP** Crédito por Ingreso del Trabajo
- **850** English-Spanish Glossary of Words and Phrases Used in Publications Issued by the Internal Revenue Service
- **1544SP** Informe de Pagos en Efectivo en Exceso de $10,000 (Recibidos en una Ocupación o Negocio)

Commonly Used Tax Forms

See *How To Get Tax Help* for a variety of ways to get forms, including by computer, phone, and mail.

Form Number and Title

- **1040** U.S. Individual Income Tax Return
  - **Sch A&B** Itemized Deductions & Interest and Ordinary Dividends
  - **Sch C** Profit or Loss From Business
  - **Sch C-EZ** Net Profit From Business
  - **Sch D** Capital Gains and Losses
  - **Sch D-1** Continuation Sheet for Schedule D
  - **Sch E** Supplemental Income and Loss
  - **Sch EIC** Earned Income Credit
  - **Sch F** Profit or Loss From Farming
  - **Sch H** Household Employment Taxes
  - **Sch J** Income Averaging for Farmers and Fishermen
  - **Sch R** Credit for the Elderly or the Disabled
  - **Sch SE** Self-Employment Tax
- **1040A** U.S. Individual Income Tax Return
  - **Sch 1** Interest and Ordinary Dividends for Form 1040A Filers
  - **Sch 2** Child and Dependent Care Expenses for Form 1040A Filers
  - **Sch 3** Credit for the Elderly or the Disabled for Form 1040A Filers
- **1040EZ** Income Tax Return for Single and Joint Filers With No Dependents
- **1040-ES** Estimated Tax for Individuals
- **1040X** Amended U.S. Individual Income Tax Return

Form Number and Title

- **2106** Employee Business Expenses
- **2106-EZ** Unreimbursed Employee Business Expenses
- **2210** Underpayment of Estimated Tax by Individuals, Estates, and Trusts
- **2441** Child and Dependent Care Expenses
- **2848** Power of Attorney and Declaration of Representative
- **3903** Moving Expenses
- **4562** Depreciation and Amortization
- **4868** Application for Automatic Extension of Time To File U.S. Individual Income Tax Return
- **4952** Investment Interest Expense Deduction
- **5329** Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts
- **6251** Alternative Minimum Tax—Individuals
- **8283** Noncash Charitable Contributions
- **8582** Passive Activity Loss Limitations
- **8606** Nondeductible IRAs
- **8812** Additional Child Tax Credit
- **8822** Change of Address
- **8829** Expenses for Business Use of Your Home
- **8863** Education Credits
- **9465** Installment Agreement Request