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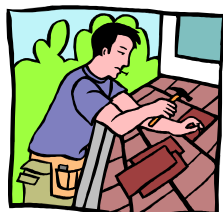
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# Tax Enlightenment

## Renovating? Donate Your Scrap and Get a Deduction

By: Victoria Lau, CPA, *MST Student*



While most would agree the general public is familiar with the tax benefits of a charitable donation of cash, household goods or vehicles, it is highly likely that only a minority knows that a charitable donation of used building material like wood flooring, cabinets or countertops can also generate a deduction.

Many charities build and renovate homes for the needy. They welcome contributions of used building material in suitable condition to support their work. Think about it. You help the charity with the donation, you get a tax deduction and you save the environment by recycling too! This article covers the basics of how to achieve this trifecta of benefits.

How much you can deduct depends on the *fair market value* of the material you donate *when* you donate it. The IRS says *fair market value* is the price a willing buyer will pay to a willing seller. If there is no ready market to price the building material, there are accepted methods to determine the *fair market value*.

Extra costs that you may incur to prepare the material for donation are factored into the *fair market value*. For example, your contractor may spend more time to carefully remove flooring or cabinets so they are in better condition for reuse; however you cannot deduct any additional costs that result as part of the charitable contribution.

If the charity removes the scrap material for you, your deduction is reduced by the market price of scrap removal. The law says that the value of a donation must be reduced by any services or benefits provided by the charity. As such, when a charity removes the scrap for you, a deduction for the donation is only available when the value of your donated material exceeds the fair price of scrap removal.

As a general rule, tax deductions are only allowed if certain requirements are met. The laws on charitable contributions, including those of building materials, are no different. In general, as the amount of the charitable donation increases, the record keeping requirements related to those donations become more rigorous.

Set out below are the incremental requirements as the value of your donation increases.

Less than \$250	Keep record of the donation including the fair market value of the donated material.
\$250 to \$500	Obtain receipt from the charity
\$501 to \$5,000	Complete Form 8283 (Section A) “Noncash Charitable Contribution”
Over \$5,000	Obtain <i>qualified written appraisal</i> by <i>qualified appraiser</i> and complete Form 8283 (Section B) “Noncash Charitable Contribution”

(For more details on the documentation, see [IRS Publication 526, Charitable Contributions.](#))

Focusing on charitable donations over \$5,000, you must engage a *qualified appraiser* to determine the *fair market value* of the material at the time of the donation. The *qualified appraiser* must hold a professional designation from a recognized appraiser organization or meet minimum education and experience requirements. Further, the qualified appraiser must also demonstrate the experience in appraising the specific type of material you are donating. As such, if you are donating various building materials, you may need more than one appraisal. Material of the same generic category can be assessed in one *qualified appraisal*; otherwise, separate *qualified appraisals* and tax forms are required.

The results of the appraisal must be documented and retained as part of your tax records. An additional form must also be completed with your tax return. This form must be signed by the charity to acknowledge its receipt of the donation. The form must also be signed by the appraiser to verify his/her experience, qualification and independence as well as to acknowledge that he/she is aware that a false or fraudulent overstatement may result in civil penalty. It is best to complete this form when you make the donation and when the appraisal is performed.

Keep in mind that your deduction may be disallowed if the appraiser charges you a fee contingent on the appraised value. Also be advised that while a taxpayer can deduct the appraisal fees as a miscellaneous itemized deduction, it is one of many deductions subject to the 2% limitation of your adjusted gross income (AGI).

The type of charity to which you donate limits your annual deduction. A deduction of 50% of your adjusted income in the tax year that you make the donation is generally available. You can check [IRS Publication 78](#) to determine the limitation percentage that applies to your charity. Unused amounts can be carried forward up to five years.

Keep donation of scrap in mind when you renovate. While it requires additional paper work and likely an appraisal, you will be taking part in a trifecta of benefits; the charity receives much needed building material through your charitable donation, you get a tax deduction and the environment is better off through your act of recycling.