

FRANZEN & FRANZEN, LLP

CERTIFIED PUBLIC ACCOUNTANTS

May 16, 2013 – Charity Auctions

We are often asked how to determine the charitable contribution deduction for auction items, both as a purchased item at a silent or live auction or as donated goods to be auctioned by a charitable organization.

Donors who purchase items at a charity auction may claim a charitable contribution deduction for the excess of the purchase price paid for an item over its fair market value. The donor must be able to show, however, that he or she knew that the value of the item was less than the amount paid. For example, a charity may publish a catalog, given to each person who attends an auction, providing a good faith estimate of items that will be available for bidding. Assuming the donor has no reason to doubt the accuracy of the published estimate, if he or she pays more than the published value, the difference between the amount paid and the published value may constitute a charitable contribution deduction.

In addition, donors who provide goods for charities to sell at an auction often ask the charity if the donor is entitled to claim a fair market value charitable deduction for a contribution of appreciated property to the charity that will later be sold. Under these circumstances, the law limits a donor's charitable deduction to the donor's tax basis in the contributed property and does not permit the donor to claim a fair market value charitable deduction for the contribution. Specifically, if a donor contributes tangible personal property to a charity that is put to an *unrelated use*, the donor's contribution is limited to the donor's tax basis in the contributed property. The term *unrelated use* means a use that is unrelated to the charity's exempt purposes or function. The sale of an item is considered unrelated, even if the sale raises money for the charity to use in its programs.

If you would like to discuss charitable donation deductions in further detail, please feel free to call our office.