



## TAX RAMIFICATIONS OF CHARITABLE CONTRIBUTIONS:

**Did You Know?** In 2013, a whopping 98.4% of households participated in charitable giving. Total gifts to charity in 2013 reached over \$335 billion, continuing the trend for four straight years of increased giving with a 4.4% jump!

The decision to donate your horse to a charitable organization can be rewarding for you, your horse, and the charity. If your donation is eligible for a tax deduction, it is important to keep good records and research the charities to which you choose to donate. What follows is a summary of the tax code on charitable contribution of property, specifically horses. For reference, the general rule related to the deduction of the value of charitable donations is located in Section 170 of the Internal Revenue Code; exceptions and limitations follow in further sections.

### The Charity:

Your donation will be tax deductible only if it is made to a properly formed and qualified Internal Revenue Code §501(c)(3) charitable organization. These include public charities, educational institutions, hospitals, governments, humane organizations, and private foundations.

In order to get the most tax benefit out of your donation, the horse must be used by the donee charity in connection with the charitable purpose for which it was formed. If a horse is donated to a charity that in turn uses the horse in a manner unrelated to its charitable purpose, then the donor taxpayer can deduct only their basis in the horse, which is usually the purchase price, less any depreciation; the basis in a homebred horse would be zero.

It is important to note that if the charity simply sells the horse and keeps the profits, then the donor taxpayer's deduction is limited to the basis in the horse because the sale of the horse is unrelated to the charity's purpose. Thus, owner-initiated surrenders to an adoption program or re-training facility may not be eligible for the charitable deduction. Monetary gifts made concurrent with or subsequent to the surrender may be eligible for a tax deduction under charitable contribution rules, discussed at the end of this chapter.

Before finalizing the donation of your horse, you should examine the charity's IRS Exemption Certificate and get a statement in writing from the charity affirming the charity's tax exempt purpose and their intended use of the donated horse.

Some possible charities to research for horse donations include therapeutic riding centers, horse clubs, mounted police units, and schools and universities. A complete list of qualified organizations can be found in IRS Publication 78, available at <http://www.irs.gov/charities/article/0,,id=96136,00.html>.

### The Donation:

As a general rule, you can deduct the fair market value of a horse donated to a charitable organization if:

- The donation is made without expectation or receipt of a financial or economic benefit in return,
- The horse will be used by the charity in connection with its charitable purpose, and
- The horse was held by the donor for sporting, breeding, or draft purposes for 24 months prior to the donation.



## TAX RAMIFICATIONS OF CHARITABLE CONTRIBUTIONS:

There are, of course, exceptions to the general rule that may reduce the amount of the deduction. For example, when a horse eligible for capital gain treatment has been depreciated and is donated to a charity, the amount of the gift is the value of the horse reduced by the amount of depreciation that has been taken. Section 170(e) of the Internal Revenue Code lists these exceptions, including horses eligible for capital gains treatment and a donation to a charity that does not relate to the charity's exempt purpose.

In addition, the total of all charitable contributions that can be deducted in one year cannot exceed 50% of the taxpayer's income in some cases and 30% in others, depending on the type of donee charity (IRC §170(b)).

Required Records: In all horse donations to a charity, the taxpayer must have a record of:

- The name and address of the charity,
- The date of the donation,
- The location of the donation,
- A description of the horse in detail reasonably sufficient under the circumstances
- (note: the required amount of detail increases with the horse's value),
- The fair market value of the horse at the time of donation and the method used to determine the value, including a written and signed appraisal if used or required, and
- The terms of agreement relating to the horse's use or disposition.

If the horse is worth more than \$250, but less than \$5000, the taxpayer seeking the deduction must also have a written acknowledgment from the charity. The acknowledgment must include:

- A description of the horse,
- A statement concerning whether or not any goods or services were provided to the donor by the charity in exchange for, in whole or part, the horse, and
- A description and good faith estimate of any value or services given by the charity in exchange for the horse.

If the horse is worth more than \$5000, the taxpayer seeking the deduction must also complete and file with their tax return IRS Form 8283, available at <http://www.irs.gov/pub/irs-pdf/f8283.pdf>. In addition to the information above, Form 8283 requires the taxpayer to disclose (1) how the horse was acquired, (2) the date of acquisition (approximate), and (3) the cost basis of the horse. In addition, the taxpayer must obtain a written appraisal by a qualified appraiser. Unless a herd of horses is donated to one charity at one time by one donor, each donated horse must have a separate written appraisal. If a herd is donated, then one appraisal is allowed, but it must describe and value each horse individually. Finally, the taxpayer must attach an appraisal summary to their tax return.



## TAX RAMIFICATIONS OF CHARITABLE CONTRIBUTIONS:

**Qualified Appraisal:** The qualified appraisal for horses valued at more than \$5000 must be completed not earlier than 60 days prior to the date of donation and not later than the due date of the tax return on which the deduction is taken. The qualified appraisal must be conducted by a qualified appraiser, which is defined by the IRS as someone who:

- Holds himself or herself out to be an appraiser or who performs appraisals on a regular basis;
- Is able to make appraisals of horses because of his or her qualifications;
- Is not within a group of disqualified people, including the donor, the person who sold, gave, or exchanged the horse to or with the donor, anyone who acted as an agent in the sale, exchange or gift of the horse (unless the donation is within two months of the date of acquisition and the appraisal value does not exceed the acquisition value), the donee, and any employees, spouses, or relatives of the people above; and
- Understands and acknowledges in writing that an intentionally false or fraudulent overstatement of the horse's value may subject the appraiser to penalties.

A declaration to the above and signed by the appraiser must be included with the appraisal summary. The fee charged for the appraisal, with a very limited exception for nonprofit and uncompensated appraisers, cannot be based on a percentage of the appraised value of the horse. The written qualified appraisal must be prepared, dated and signed by the appraiser and must include:

- A description of the horse(s);
- The physical condition of the horse;
- The date or expected date of the donation;
- The terms of agreement, if any, to the use, sale, or other disposition of the horse;
- The identity and qualifications of the appraiser, including background, professional memberships, education, etc.;
- A statement that the appraisal is being made for income tax purposes;
- The date of the appraisal;
- The appraised value of the horse(s);
- The method of evaluation; and
- The specific basis for valuation.

**Appraisal Summary:** Taxpayers who are deducting the value of a horse worth more than \$5000 must also attach an appraisal summary to the tax return on which the deduction is claimed. The summary must:

- Be made on Schedule B IRS Form 8283,
- Be signed and dated by the charity,
- Be signed and dated by the qualified appraiser who prepared the qualified appraisal, and
- Contain information specified in Schedule B relating to the donor, the horse, the donee, and the appraiser.

Another tax issue to keep in mind during tax time is monetary gifts to qualified 501(c)(3) charitable horse organizations, including many rescue groups. Monetary gifts to charities are deductible as charitable contributions if made to a qualified organization, do not exceed specified limits (set forth in the tax code and usually no more than 50% of a taxpayer's income), and are truly a gift rather than an exchange for a financial or economic benefit.

Planning to get the most tax benefit from a charitable contribution of a horse is very fact-specific. The tax rules described in this document are general, and the UHC strongly recommends consulting with a qualified tax professional who can help you apply applicable tax rules to your specific facts.