

Court of Appeals Affirms IRS Tax Court Denial of Charitable Contribution Deductions to Married

The Court of Appeals affirmed the Tax Court's findings in a case where a married couple was denied deductions for charitable contributions of their residence, certain land improvement expenses and a tractor/mower made to a nonprofit religious organization.

The Court of Appeals recently affirmed the Tax Court's disallowance of the land-improvement expense deduction on the ground that the taxpayers were not entitled to take that deduction for one tax year because the expenses were incurred in other tax years.

The taxpayers argued that they reasonably relied on the advice of their CPA and attorney that they could take the deduction on their tax return because they lacked accounting or tax experience.

However, the court ruled that the taxpayers still should have, in the exercise of reasonable care, asked their CPA why the deduction was not mentioned on Form 8283, Noncash Charitable Contributions, especially given their attorney's advice about the need for an appraisal and proper documentation of that donation on the taxpayers' tax return.

Therefore, the Court of Appeals also affirmed the penalties regarding the tractor/mower deduction and the residence deduction for the same reasons the Tax Court had found the taxpayers failed to establish reasonable cause and good-faith reliance on their advisors for taking those deductions.

Conclusion

This case illustrates just how important it is for taxpayers to know, understand and take responsibility for the applicable laws governing their charitable donations. Regardless of what your tax professional may say or do on your behalf, it's your signature on the bottom of the return and you who the IRS will hold responsible for the accuracy of the information reported. The use of tax professionals to help ensure compliance with and correct reporting of your tax related information is generally encouraged, especially where complex issues are involved. Nevertheless, taxpayers should always understand that any mistakes reported on the return are their responsibility. Consequently, any penalties or adjustments to the return are your responsibility as well.

Churches and religious charities who are the recipients of special gifts with significant value also need to be aware that they may have multiple things to consider, both before the gift is received, and after when reporting requirements to the IRS may be triggered and certain receipting requirements are triggered. CMA recommends that charities always seek the counsel of a qualified tax professional before accepting a gift of significance to ensure you understand all the potential issues and ramifications that may come along with the gifts.

Additionally, it is always wise when approached with a gift of significance to ask the potential donor if they have received professional advice and understand the potential tax impact of the gift before proceeding.

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