

Donating Deconstructed Salvage Building Materials Tax Deduction – Charitable Contributions

Iowa Waste Reduction Center / University of Northern Iowa

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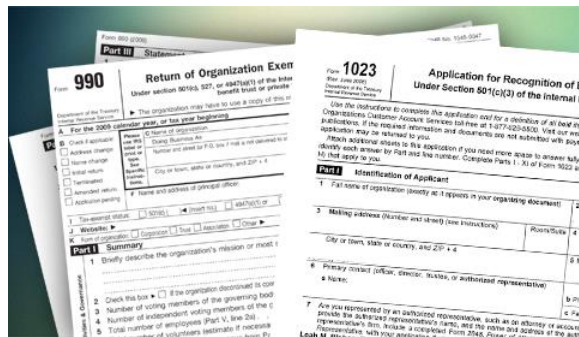
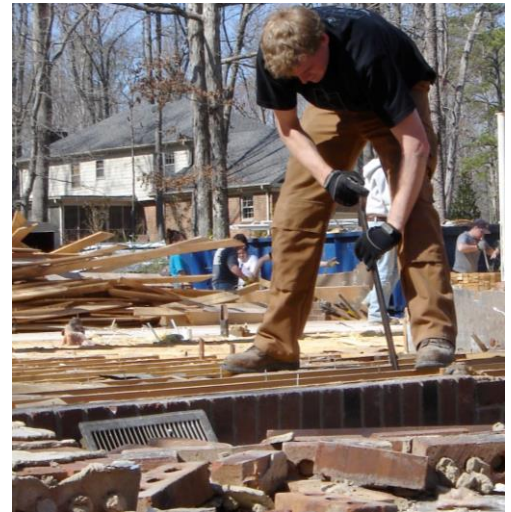
Internal Revenue Service Publication 526, Charitable Contributions

Charitable contributions, in many instances, are tax deductible when donated to an organization qualified by the Internal Revenue Service (IRS). The deconstruction deduction can yield big savings. Rather than demolish a building, hire a deconstruction contractor to salvage materials, then donate these materials to a tax-exempt organization. The tax benefit can outweigh the cost of demolition.

In addition, other savings includes natural resources conservation, energy savings, preservation of architectural history, re-use of quality materials no longer available (old growth timber), and job creation.

Step 1. Choose an Organization that Will Accept Salvaged Building Materials

The organization to accept donated salvage building material must be qualified by the IRS as eligible to receive tax-deductible charitable contributions and must have a tax-exempt status.



- Request a copy of the organization’s Form 990 “Return of Organization Exempt From Income Tax,” or Form 1023 “Application for Recognition of Exemption under Section 501 (c)3 of the IRS.
- You can also visit the following IRS webpage to determine if an organization is qualified to receive tax-deductible, charitable contributions:
<http://www.irs.gov/Charities-&-Non-Profits/Exempt-Organizations-Select-Check>

Step 2. Choose a Licensed Contractor to Perform the Deconstruction Work

- Licensing is a function of state, county, and municipal laws and varies from state to state. In the state of Iowa, construction contractors must register with the Iowa Division of Labor and renew registration annually. A list of registered contractors in the state of Iowa can be viewed and searched at the Division of Labor Services webpage at the following link: <http://www2.iwd.state.ia.us/contractor.nsf>

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Disclaimer: The information presented in this fact sheet, developed by the Iowa Waste Reduction Center, is general in nature and not intended to serve as tax advice. It should not be used in any actual transaction without the advice and guidance of a professional tax adviser who is familiar with all the relevant facts.

- Deconstruction requires training and skill. A quality deconstruction contractor will be trained in removal of materials to minimize damage and maximize quantity.
- Get references from deconstruction contractors and do some background research.
- Ask the organization accepting charitable donations for referrals when choosing a deconstruction contractor.

Step 3. Get an Appraisal for the Salvaged Building Materials to be Donated

- Discuss items to be donated with the organization that may accept the material.
- An appraisal is necessary if the value of the materials is \$5000 or more.
- Hire an IRS qualified appraiser that has adequate education, training, and certifications in the exact type of material being valued. The selected appraiser must follow standards of the Appraisal Foundation.
- For more information on qualified appraisals, please see IRS Publication 561 at <http://www.irs.gov/publications/p561/ar02.html>.
- Appraiser must be completely independent.
 - Appraiser may not participate in selection of donated materials.
 - Appraiser may not charge appraisal fees if working for the donor to find recipient organizations.
- Appraisal must not be prepared more than 60 days before date of donation.
- Donated property is classified as either:
 - **Capital gain property** – property that would recognize a long-term capital gain if sold (property that has essentially appreciated in value, where the original cost or basis of the property is less than the current fair market value (FMV)).

- **Ordinary income property** – property that would recognize ordinary income if sold (property that is held for one year or less or has essentially declined in value, where the original cost or basis of the property is greater than the FMV).
- To determine the type of property, please refer to Publication 526, Charitable Contributions, sub-topic “Contributions of Property,” which can be found at <http://www.irs.gov/publications/p526/index.html>



- Appraisal must be at fair market value (price buyer is willing to pay and price seller is willing to accept if neither has to buy or sell and both having reasonable knowledge of all the relevant facts) and will vary according to the condition of the material. For information on determining the value of donated property, see IRS Publication 561 listed at <http://www.irs.gov/pub/irs-pdf/p561.pdf>.



Step 4. Recordkeeping Recommendations

- Save cancelled checks and receipts.
- Receive and save acknowledgement letters from the organization to receive the materials.
- Save appraisals for donated materials.
- Keep written donation records with tax return for a period of at least seven years.

Step 5. Information for Taxes

- For charitable contributions, you must file an itemized deduction on Form 1040 (Schedule A). IRS Form 1040 and Schedule A can be found at <http://www.irs.gov/pub/irs-pdf/f1040.pdf> and <http://www.irs.gov/pub/irs-pdf/f1040sa.pdf>
- Depending on the type of property & use, deductions are based on the taxpayer's basis (cost) or the fair market value of the property. IRS Publication 561 can help determine Fair Market Value at <http://www.irs.gov/publications/p561/ar02.html>.
- A charitable contribution of \$250 or more requires a receipt in order to claim a deduction.
- IRS Form 8283 must be completed by individuals, partnerships, and corporations and attached to the return. Form 8283 can be found at <http://www.irs.gov/pub/irs-pdf/f8283.pdf>.
 - C corporations must file Form 8283 if the amount claimed as a deduction is more than \$5000.
 - Partnerships and S corporations must file Form 8283 if the claimed deductions are more than \$500 and must also file Form 1065, 1065-B, or 1120S.
 - Individuals must file Form 8283 if the amount of the deduction is more than \$500.
 - Instructions for Form 8283 are located on the IRS website at <http://www.irs.gov/pub/irs-pdf/i8283.pdf>.
- Charitable contributions may be deducted up to 50% of adjusted gross income (AGI) for other income property or 30% of AGI for capital gain property, depending on the organizations that receive the donations. For a list of deductibility limitations, please see the following IRS link: <http://www.irs.gov/Charities-&-Non-Profits/Exempt-Organizations-Select-Check:-Deductibility-Status-Codes> C corporations can deduct charitable contributions up to 10 percent of the corporation's net taxable income.

- Please note that the percentage limitation is based on the AGI, not the contribution:
 - Example: A person may have \$200,000 in contributions of salvaged materials, but only has adjusted gross income (AGI) of \$100,000; the maximum deduction allowed from the contribution is \$50,000 (50% of AGI) if the donated material is ordinary income property (see Step 1 above) or a maximum deduction of \$30,000 (30% of the AGI) if the donated material is capital gain property. Therefore, the deduction IS NOT \$100,000 (50% of contribution) or \$60,000 (30% of contribution).
- Charitable contributions in excess of the deductibility limit in any given tax year can be deducted over the next five tax years (carried forward).
- If the donated property is capital gain property, the non-profit organization must have a core mission to reuse donated materials (may deduct the FMV, up to 30% of adjusted gross income (AGI)). Choosing an organization that does not have the core mission or purpose to reuse donated material could result in a deduction limitation by the IRS.
- For more information on contribution limitation (AGI Ceiling), please refer to Publication 526, Charitable Contributions, sub-topic “Limits on Deductions”

Step 6. Complete Information

- For complete information on donating salvaged building materials as tax deductible charitable contributions, please visit the IRS website at www.irs.gov.

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