

## PENSION PROTECTION ACT OF 2006: CHANGES FOR CHARITABLE DONATIONS AND REPORTING

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**T**axable distributions from an IRA made directly to a qualifying charitable organization may qualify for an annual exclusion of \$100,000 for taxpayers age 70½ and older.

- Cash contributions will be allowed as a deduction only if the donor maintains bank records (cancelled checks or bank statements), credit card statements, or donee receipts showing contribution amounts and dates.
- Clothing and household items must be in good used condition or better to qualify for a charitable contribution deduction. Property in excess of \$500 with a qualified appraisal does not have to meet the “good used condition or better” test.
- The charitable deduction for contribution of food inventory and book inventory is extended to 2006 and 2007.
- The basis reduction adjustment to stock of S corporation contributing property is now the shareholder’s pro rata share of the adjusted basis of the property contributed.
- Tax treatment of certain payments to controlling exempt organizations has been modified to apply to only certain excess payments. A new 20% penalty and additional reporting are required.
- Contributions of capital gain real property made for conservation purposes are encouraged by increasing the contribution base limitation to 50% (formerly 30%).
- Blood-collector organizations have new exemptions from diesel and special motor fuels excise taxes, manufacturers excise taxes, communications excise taxes, and certain highway motor vehicle taxes.
- Easements of buildings located in a registered historic district may qualify for a charitable contribution.
- The taxidermy-property charitable contribution is now limited to the costs of preparing, stuffing, or mounting the taxidermy property.
- Exempt-use property not used for the exempt use by the donee may lead to the donor’s recapturing the amount of the allowed deduction over the donor’s basis at the time of contribution.
- Fractional interests in a tangible personal property deduction will not be allowed unless all interest in the property is held immediately before the contribution by the taxpayer or the taxpayer and the donee.
- Credit counseling organizations operating as exempt organizations cannot solicit contributions from consumers while they are receiving the organization’s services. Payments from consumers’ creditors must not exceed 50% of an organization’s total revenue.
- The definition of gross investment income for private foundations is amended to include capital gains, notional principal contracts, annuities, and other substantially similar investment income.
- The definition of a convention or association of churches is clarified. An organization that otherwise is a convention or association of churches does not fail to so qualify merely because the membership of the organization includes individuals as well as churches, or because individuals have voting rights in the organization.
- Information on exempt organizations that may be disclosed to state officials now includes information about tax-exempt status; proposed deficiency of tax; and the name, address, and taxpayer identification number of applicants.
- Donor-advised funds develop when a charitable organization sets up a fund for donors to contribute to and then advise the organization about the use of the funds. The U.S. Secretary of the Treasury will undertake a major study of these funds and their supporting organizations. □