Pension Act Tightens Charitable Deduction Rules

Tucked into the Pension Protection Act of 2006 signed into law this fall was a package of charitable giving incentives and safeguards.

The bill's giving incentives (land conservation tax benefits and a provision allowing sizeable tax-free charitable contributions for IRA holders) are expected to attract needed resources for the nonprofit sector.

Likewise, reforms in the legislation are hoped to deter individuals from using nonprofits for personal gain.

Key provisions relating to charitable deductions include:

- Call it the "used-socks" restriction, but charitable deductions have been eliminated for items of "minimal value." In particular, deductions have been disallowed for household items — furniture, appliances, clothing, electronics and the like — that aren't in "good used condition or better" condition. (The bill directs the Treasury Department and IRS to flesh out the definition of "good" and "better").
- Any significant household items (a television, washer/dryer combo, etc.) valued at more than $500 must be first appraised before the taxpayer can take a deduction.
- Cash donations now require a receipt or bank record, such as a cancelled check, to prove the gift.