

Future Interest in Tangible Personal Property

You may be able to deduct the value of a charitable contribution of a future interest in tangible personal property only after all intervening interests in and rights to the actual possession or enjoyment of the property have either expired or been turned over to someone other than yourself, a related person, or a related organization. But see *Fractional Interest in Tangible Personal Property*, earlier, and *Tangible personal property put to unrelated use*, later.

Related persons include your spouse, children, grandchildren, brothers, sisters, and parents. Related organizations may include a partnership or corporation that you have an interest in, or an estate or trust that you have a connection with.

Tangible personal property. This is any property, other than land or buildings, that can be seen or touched. It includes furniture, books, jewelry, paintings, and cars.

Future interest. This is any interest that is to begin at some future time, regardless of whether it is designated as a future interest under state law.

Example. You own an antique car that you contribute to a museum. You give up ownership, but retain the right to keep the car in your garage with your personal collection. Since you keep an interest in the property, you cannot deduct the contribution. If you turn the car over to the museum in a later year, giving up all rights to its use, possession, and enjoyment, you can take a deduction for the contribution in that later year.

Inventory

If you contribute inventory (property that you sell in the course of your business), the amount you can claim as a contribution deduction is the smaller of its fair market value on the day you contributed it or its basis. The basis of donated inventory is any cost incurred for the inventory in an earlier year that you would otherwise include in your opening inventory for the year of the contribution. You must remove the amount of your contribution deduction from your opening inventory. It is not part of the cost of goods sold.

If the cost of donated inventory is not included in your opening inventory, the inventory's basis is zero and you cannot claim a charitable contribution deduction. Treat the inventory's cost as you would ordinarily treat it under your method of accounting. For example, include the purchase price of inventory bought and donated in the same year in the cost of goods sold for that year.

A special rule applies to certain donations of food inventory. See *Food Inventory*, later.

Patents and Other Intellectual Property

If you donate a patent or other intellectual property to a qualified organization, your deduction is limited to the basis of the property or the fair market value of the property, whichever is less. Intellectual property means any of the following:

- Patents.

- Copyrights (other than a copyright described in Internal Revenue Code sections 1221(a)(3) or 1231(b)(1)(C)).
- Trademarks.
- Trade names.
- Trade secrets.
- Know-how.
- Software (other than software described in Internal Revenue Code section 197(e)(3)(A)(i)).
- Other similar property or applications or registrations of such property.

Additional deduction based on income.

You also may be able to claim additional charitable contribution deductions in the year of the contribution and years following, based on the income, if any, from the donated property.

The following table shows the percentage of the organization's income from the property that you can deduct for each of your tax years ending on or after the date of the contribution. In the table, "tax year 1," for example, means your first tax year ending on or after the date of the contribution. However, you can take the additional deduction only to the extent the total of the amounts figured using this table is more than the amount of the deduction claimed for the original donation of the property.

Tax year	Deductible percentage
1	100%
2	100%
3	90%
4	80%
5	70%
6	60%
7	50%
8	40%
9	30%
10	20%
11	10%
12	10%

After the legal life of the patent or other intellectual property ends or after the 10th anniversary of the donation, no additional deduction is allowed.

The additional deductions cannot be taken for patents or other intellectual property donated to certain private foundations.

Reporting requirements. You are required to inform the organization at the time of the donation that you intend to treat the donation as a contribution subject to the provisions discussed above.

The organization is required to file an information return showing the income from the property, with a copy to you. This is done on Form 8899, Notice of Income From Donated Intellectual Property.

Determining Fair Market Value

This section discusses general guidelines for determining the fair market value of various types of donated property. Publication 561 contains a more complete discussion.

Fair market value is the price at which property would change hands between a willing buyer and a willing seller, neither having to buy or sell, and both having reasonable knowledge of all the relevant facts.

Used clothing. The fair market value of used clothing and other personal items is usually far less than the price you paid for them. There are no fixed formulas or methods for finding the value of items of clothing.

You should claim as the value the price that buyers of used items actually pay in used clothing stores, such as consignment or thrift shops.

Also see *Clothing and Household Items* on page 7.

Household items. The fair market value of used household items, such as furniture, appliances, and linens, is usually much lower than the price paid when new. These items may have little or no market value because they are in a worn condition, out of style, or no longer useful. For these reasons, formulas (such as using a percentage of the cost to buy a new replacement item) are not acceptable in determining value.

You should support your valuation with photographs, canceled checks, receipts from your purchase of the items, or other evidence. Magazine or newspaper articles and photographs that describe the items and statements by the recipients of the items are also useful. Do not include any of this evidence with your tax return.

If the property is valuable because it is old or unique, see the discussion under *Paintings, Antiques, and Other Objects of Art* in Publication 561.

Also see *Clothing and Household Items* on page 7.

Cars, boats, and airplanes. If you contribute a car, boat, or airplane to a charitable organization, you must determine its fair market value.

Boats. Except for inexpensive small boats, the valuation of boats should be based on an appraisal by a marine surveyor because the physical condition is critical to the value.

Cars. Certain commercial firms and trade organizations publish used car pricing guides, commonly called "blue books," containing complete dealer sale prices or dealer average prices for recent model years. The guides may be published monthly or seasonally, and for different regions of the country. These guides also provide estimates for adjusting for unusual equipment, unusual mileage, and physical condition. The prices are not "official" and these publications are not considered an appraisal of any specific donated property. But they do provide clues for making an appraisal and suggest relative prices for comparison with current sales and offerings in your area.

These publications are sometimes available from public libraries, or from the loan officer at a bank, credit union, or finance company. You can also find used car pricing information on the Internet.