THE SMART TAX PLANNING NEWSLETTER

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MONTHLY NEWSLETTER

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LIFETIME PARADIGM

A BETTER, SMARTER, SAFER WAY

IN THIS ISSUE

DONATING CLOTHING TO GOODWILL AND THE SALVATION ARMY

As the year comes to a close, many taxpayers consider making clothing and household item donations both to give back and to optimize their tax deductions. Recent cases, like the one involving Duncan Bass, underscore the significance of understanding and adhering to IRS regulations related to these contributions.

Mr. Bass made an astonishing 172 trips to Goodwill and the Salvation Army, strategically ensuring that each donation receipt remained below the $250 threshold. Unfortunately, he didn't account for the rules on (a) aggregation of similar items and (b) appraisals.

But before delving into aggregation and appraisal, let's clarify the $250 rule. If you make a single charitable contribution of $250 or more, you must obtain a written acknowledgment from the charitable organization to validate your deduction. This is often referred to as a "contemporaneous written acknowledgment."

- It confirms the amount of cash or describes any property you contributed.
- It must indicate whether the charity provided you with any goods or services in return for the gift. If so, it must furnish a description and a good faith estimate of the value of those goods or services.
- ·If applicable, it must specify that the only benefit you received was an intangible religious benefit.

If you make multiple smaller gifts to the same charity throughout the year, you'll need acknowledgment only if any single gift is $250 or more.

Determining fair market value can be the most challenging aspect. The fair market value is not what you originally paid for an item; rather, it's what it's worth presently. Numerous reputable resources, such as The Salvation Army and Goodwill, offer donation value guides.

If you claim a deduction of over $5,000 for a non-cash charitable contribution of one item or a group of similar items, you must obtain a qualified appraisal for that item or group of items and attach it to your tax return.

Key point. A "group of similar items" can trigger the appraisal requirement. This is precisely what occurred in Mr. Bass's case. His 172 trips comprised clothing donations totaling $13,852 and $11,594 for the two years before the court—well surpassing the $5,000 appraisal requirement for the group.

DEDUCT TRAVEL BY CAR, PLANE, TRAIN, OR BOAT

Say you are going to travel from your home in Washington, D.C., to San Francisco. Will the tax law allow you to travel to San Francisco by car, train, plane, or boat, your choice?

Answer. Yes. But special rules apply. You need to know these rules to guarantee your deductions.

Travel by Car

The tax code does not dictate the fastest or cheapest form of travel. Therefore, you can travel for business by automobile or other vehicle from Washington, D.C., to San Francisco. When you travel by automobile, your direct route expenses for meals, lodging, and other costs of sustaining life on the road are deductible in addition to the vehicle expenses.

Side trips, say to the Grand Canyon, count as personal days and miles. You can combine business and pleasure, but you can deduct only the business part.

Business Day

You might ask: how many miles do I have to drive in my direct route to qualify the day as a business day? There's no guidance here. This is a facts and circumstances test. Here are some facts and circumstances. You need to prove that your days traveling in the direct route to San Francisco were business days. In general, this requires passing the primary purpose test, where time spent is an important factor.

Example. On day three of the trip, you spend one hour packing and unpacking and five hours driving 300 miles in a direct route from Washington, D.C., to San Francisco. Day three of this trip is a business day. Your miles are business miles. In addition, you deduct your meals, lodging, and other expenses of sustaining life for the day.

What If You Bring Your Family?

When you travel by car, you spend nothing extra to have the family in the car. But family presence makes the trip smell more like a vacation than a business trip. This gives you another good reason to make sure your records are in good shape. Having your family members become Board Members and holding a formal Board meeting during the trip is worth consideration.

Example. You stop at a hotel and the single rate is $209 a night and the two-person rate is $229. You are limited to the $209 rate—what it would have cost if you traveled alone. With meals, your business meals are deductible. Meals for your other family members are non-deductible personal meals.

Meals for your Board members are deductible. Remember, however, that making your family members Board Members just to deduct their expenses is a bad idea all around. On the other hand, having your family members learn about your business, and offering their input, this is exactly what a Board should be doing.

Travel by Train

Your travel by train faces no special rules other than the reasonably direct route.

You can deduct the cost of the tickets if you buy sleeping rooms or simply travel by first class or coach.

Example. You travel for business from Washington, D.C., to San Francisco by train. You buy a sleeping room on the train for the trip. Your Amtrak travel fare is $3,000, and it is fully deductible.

Travel by Plane

By plane, you can travel in coach, in first class, by charter, or in your own aircraft. No special rules apply to commercial travel. You simply deduct the cost of getting to your business destination by a reasonably direct route.

Example. Say that on your trip from Washington, D.C., to San Francisco, you take a side trip to Kansas City. You figure your deduction based on the direct route airfare and deduct that. Say you spent $900 on the trip that included Kansas City. If the direct route fare to San Francisco was $500, you deduct $500, and $400 is the cost of your personal side trip.

Travel by Boat

Special rules apply to travel by boat. For this purpose, your boat is considered a cruise ship, and any vessel that sails is a cruise ship.

If you travel by cruise ship from Washington, D.C., to San Francisco, you may not deduct more than the daily luxury boat limits, which for 2023 are as follows:

- $1,128 a day from 1/1 to 3/31
- $996 a day from 4/1 to 4/30
- $796 a day from 5/1 to 5/31
- $1,076 a day from 6/1 to 9/30
- $776 a day from 10/1 to 10/31
- $734 a day from 11/1 to 11/30
- $1,128 a day from 12/1 to 12/31

Example. You travel from Washington, D.C., to San Francisco in November by cruise ship. It takes 10 days. The law limits your cruise ship deduction to a maximum of $7,340 per business traveler ($734 x 10).

TAX-FREE RENTAL INCOME WITH THE AUGUSTA RULE

The Augusta rule gets its name from the Masters Golf Tournament, where some members and others who live in the area receive tax-free rent by renting their homes for a week or two. You don't have to live in Augusta to benefit from this rule. IRC Section 280A(g), also known as the Augusta rule, states: "Notwithstanding any other provision of this section or section 183, if a dwelling unit is used during the taxable year by the taxpayer as a residence and such dwelling unit is actually rented for less than 15 days during the taxable year, then —

- No deduction otherwise allowable under this chapter because of the rental use of such dwelling unit shall be allowed, and
- The income derived from such use for the taxable year shall not be included in the gross income of such taxpayer under section 61."

Here's an example: John rents his home at $3,000 a day for 14 days. By applying the Augusta rule, he qualifies for no rental deductions. But, and this is the good news, he excludes the rent, $42,000 ($3,000 x 14) from his income.

In summary, the Augusta rule provides a clever and advantageous way for individuals to earn tax-free rental income, inspired by the practices around the Masters Golf Tournament. This rule offers a unique opportunity for taxpayers to enjoy the benefits of short-term home rentals for up to 14 days during the taxable year, without having to concern themselves with rental deductions or the inclusion of rental income in their gross earnings. Whether you're located in Augusta or anywhere else, this rule can be a valuable strategy for maximizing your rental income while minimizing your tax liabilities, creating a win-win scenario for homeowners. So, if you've ever contemplated renting out your residence, remember the Augusta rule as a potential avenue for tax savings and increased financial flexibility.