Publication 561

(Rev. February 2024)

Determining the Value of Donated Property

Volume 1 of 2

Get forms and other information faster and easier at:

- *IRS.gov* (English)
- *IRS.gov/Spanish* (Español)
- *IRS.gov/Chinese* (中文)
- *IRS.gov/Korean* (한국어)
- *IRS.gov/Russian* (Русский)
- *IRS.gov/Vietnamese* (Tiếng Việt)

IRS

Publication 561 (Rev 02 2024) Catalog Number 39344F
Department of the Treasury **Internal Revenue Service** www.irs.gov

Visit the Accessibility Page on IRS.gov

This page is intentionally left blank

Contents	Regular Page	Large Print Page
What's New	1	4
Future Developments	1	4
Introduction	1	5
What Is Fair Market Value (FMV)?	2	8
Valuation of Various Kinds of Property	4	28
Substantiation of Noncash Charitable Contributions	9	83
Penalty	12	115
How To Get Tax Help	12	116
Index	15	140

What’s New

New actuarial tables. New actuarial tables used to determine the present value of a charitable interest donated to a charitable organization have been published. These new actuarial tables were effective June 1, 2023. However, for a period prior to June 1, 2023, there is a transitional rule allowing filers to elect to use either the former or the new actuarial tables. The transitional rule applies for donations with valuation dates from May 1, 2019, through June 1, 2023. See *Actuarial tables*, later.

Future Developments

For the latest information about developments related to Pub. 561, such as legislation enacted after it was published, go to *IRS.gov/Pub561.*

Introduction

This publication is designed to help donors and appraisers determine the value of property (other than cash) that is given to qualified organizations. It also explains what kind of information you must have to support the charitable contribution deduction you claim on your return.

This publication does not discuss how to figure the amount of your deduction for charitable contributions or written records and substantiation required. See Pub. 526, Charitable Contributions, for this information.

Comments and suggestions. We welcome your comments about this publication and suggestions for future editions.

You can send us comments through *IRS.gov/FormComments*. Or, you can write to the Internal Revenue Service, Tax Forms and Publications, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224.

Although we can’t respond individually to each comment received, we do appreciate your feedback and will consider your comments and suggestions as we revise our tax forms, instructions, and publications. **Don’t** send tax questions, tax returns, or payments to the above address.

Getting answers to your tax questions. If you have a tax question not answered by this publication or the *How To Get Tax Help* section at the end of this publication, go to the IRS Interactive Tax Assistant page at *IRS.gov/ Help/ITA* where you can find topics by using the search feature or viewing the categories listed.

Getting tax forms, instructions, and publications. Go to *IRS.gov/Forms* to download current and prior-year forms, instructions, and publications.

Ordering tax forms, instructions, and publications. Go to *IRS.gov/OrderForms* to order current forms, instructions, and publications; call 800-829-3676 to order prior-year forms and instructions. The IRS will process your order for forms and publications as soon as possible. **Don't** resubmit requests you've already sent us. You can get forms and publications faster online.

Useful Items

You may want to see:

Publication

- ☐ **526** Charitable Contributions

Forms (and Instructions)

- ☐ **8282** Donee Information Return
- ☐ **8283** Noncash Charitable Contributions
- ☐ **8283-V** Payment Voucher for Filing Fee Under Section 170(f)(13)

See *How To Get Tax Help* near the end of this publication for information about getting these publications and forms.

What Is Fair Market Value (FMV)?

To figure how much you may deduct for property that you contribute, you must first determine its FMV on the date of the contribution. This publication focuses the valuation of noncash property being contributed after January 1, 2019, to a charity that qualifies under section 170(c) for an income tax charitable contribution deduction.

FMV. FMV is the price that property would sell for on the open market. It is the price that would be agreed on between a willing buyer and a willing seller, with neither being required to act, and both having reasonable knowledge of the relevant facts. In addition to this general rule, there are special rules used to value certain types of property such as remainder interests, annuities, interests for life or for a term of years, and reversions, discussed below.

Example 1. If you give an item of used clothing that is in good used condition or better to the Salvation Army, the FMV would be the price that typical buyers actually pay for clothing of this age, condition, style, and use. Usually, such items are worth far less than what you paid for them.

Example 2. If you donate land and restrict its use to agricultural purposes, you must value the land at its value for agricultural purposes, even if it would have a higher FMV if it were not restricted.

Factors. In making and supporting the valuation of property, all factors affecting value are relevant and must be considered. These include, but are not limited to:

- The cost or selling price of the item,
- Sales of comparable properties,

- Replacement cost, and
- Opinions of professional appraisers.

These factors are discussed later. Also, see *Table 1* for a summary of questions to ask as you consider each factor.

Date of contribution. Ordinarily, the date of a contribution is the date on which the property is delivered to the charity or the title transfer date, provided you do not retain any right to or interest in the property that would limit the charity's use of the property.

Stock. If you deliver, without any conditions, a properly endorsed stock certificate to a qualified organization or to an agent of the organization, the date of the contribution is the date of delivery. If the certificate is mailed and received through the regular mail, it is the date of mailing. If you deliver the certificate to a bank or broker acting as your agent or to the issuing corporation or its agent, for transfer into the name of the organization, the date of the contribution is the date the stock is transferred on the books of the corporation.

Options. If you grant an option to a qualified organization to buy real property, you have not made a charitable contribution until the organization exercises the option. The amount of the contribution is the FMV of the property on the date the option is exercised minus the exercise price.

Example. You grant an option to a local university, which is a qualified organization, to buy real property. Under the option, the university could buy the property at any time during a 2-year period for $40,000. The FMV of the property on the date the option is granted is $50,000.

In the following tax year, the university exercises the option. The FMV of the property on the date the option is exercised is $55,000. Therefore, you have made a charitable contribution of $15,000 ($55,000, the FMV, minus $40,000, the exercise price) in the tax year the option is exercised.

Determining FMV

Determining the value of donated property depends upon many factors. You should consider all the facts and circumstances connected with the property, including any recent transactions, in determining value. Value may also be based on desirability, use, condition, scarcity, and market demand for that property. Depending on the type of property, there may be other characteristics that are relevant in determining its value.

Cost or Selling Price of the Donated Property

The cost of the property to you or the actual selling price received by the qualified organization may be the best indication of its FMV. However, because conditions in the market change, the cost or selling price of property may have less weight if the property was not bought or sold at a time that is reasonably close to the date of contribution.

The cost or selling price is a good indication of the property's value if:

- The purchase or sale took place close to the valuation date in an open market,
- The purchase or sale was at “arm's-length,”
- The buyer and seller knew all relevant facts,
- The buyer and seller did not have to act, and
- The market did not change between the date of purchase or sale and the valuation date.

Example. Bailey Morgan, who is not a dealer in gems, bought an assortment of gems for $5,000 from a promoter. The promoter claimed that the price was “wholesale” even though this dealer and other dealers made similar sales at similar prices to other persons who were not dealers. The promoter said that if Bailey kept the gems for more than 1 year and then gave them to charity, Bailey could claim a charitable deduction of $15,000, which, according to the promoter, would be the value of the gems at the time of contribution. Bailey gave the gems to a qualified charity 13 months after buying them.

The selling price for these gems had not changed from the date of purchase to the date Bailey donated them to charity. The best evidence of FMV depends on actual transactions and not on some artificial estimate. The $5,000 paid by Bailey and others is, therefore, the best evidence of the maximum FMV of the gems.

Terms of the purchase or sale. The terms of the purchase or sale should be considered in determining FMV if they influenced the price. These terms include any restrictions, understandings, or covenants limiting the use or disposition of the property.

Rate of increase or decrease in value. Unless you can show that there were unusual circumstances, it is assumed that the increase or decrease in the value of your donated property from your cost has been at a reasonable rate. For time adjustments, an appraiser may consider published price indexes for information on general price trends, building costs, commodity costs, securities, and works of art sold at auction in arm's-length sales.

Example. Corey Brown bought a painting for $10,000. Thirteen months later, Corey gave it to an art museum, claiming a charitable deduction of $15,000 on their tax return. The appraisal of the painting should include information showing that there were unusual circumstances that justify a 50% increase in value for the 13 months Corey held the property.

Table 1. **Factors That Affect FMV**

IF the factor you are considering is...	THEN you should ask these questions...
cost or selling price	Was the purchase or sale of the property reasonably close to the date of contribution? Was any increase or decrease in value, as compared to your cost, at a reasonable rate? Do the terms of purchase or sale limit what can be done with the property? Was there an arm's-length offer to buy the property close to the valuation date?

sales of comparable properties	How similar is the property sold to the property donated? How close is the date of sale to the valuation date? Was the sale at arm's-length? What was the condition of the market at the time of sale?
replacement cost	What would it cost to replace the donated property? Is there a reasonable relationship between replacement cost and FMV? Is the supply of the donated property more or less than the demand for it?

opinions of professional appraisers	Is the professional appraiser knowledgeable and competent? Is the opinion thorough and supported by facts and experience?

Arm's-length offer. An arm's-length offer to buy the property close to the valuation date may help to prove its value if the person making the offer was willing and able to complete the transaction. To rely on an offer, you should be able to show proof of the offer and the specific amount to be paid. Offers to buy property other than the donated item will help to determine value if the other property is reasonably similar to the donated property.

Sales of Comparable Properties

The sales prices of properties similar to the donated property are often important in determining the FMV. The weight to be given to each sale depends on the following.

- The degree of similarity between the property sold and the donated property.
- The time of the sale—whether it was close to the valuation date.
- The circumstances of the sale—whether it was at arm's-length with a knowledgeable buyer and seller, with neither having to act.
- The conditions of the market in which the sale was made—whether unusually inflated or deflated.

The comparable sales method of valuing real estate is explained later under *Valuation of Various Kinds of Property*.

Example 1. Quinn Black, who is not a book dealer, paid a promoter $10,000 for 500 copies of a single edition of a modern translation of a religious book. The promoter had claimed that the price was considerably less than the “retail” price and gave Quinn a statement that the books had a total retail value of $30,000. The promoter advised that if Quinn kept the books for more than 1 year and then gave them to a qualified organization, Quinn could claim a charitable deduction for the “retail” price of $30,000. Thirteen months later, all the books were given to a house of worship from a list provided by the promoter. At the time of the donation, wholesale dealers were selling similar quantities of books to the general public for $10,000.

The FMV of the books is $10,000, the price at which similar quantities of books were being sold to others at the time of the contribution.

Example 2. The facts are the same as in *Example 1*, except that the promoter gave Quinn Black a second option. The promoter said that if Quinn wanted a charitable deduction within 1 year of the purchase, Quinn could buy the 500 books at the “retail” price of $30,000, paying only $10,000 in cash and giving a promissory note for the remaining $20,000. The principal and interest on the note would not be due for 12 years. According to the promoter, Quinn could then, within 1 year of the purchase, give the books to a qualified organization and claim the full $30,000 retail price as a charitable contribution. Quinn purchased the books under the second option and, 3 months later, gave them to a house of worship, which will use the books for religious purposes.

At the time of the gift, the promoter was selling similar lots of books for either $10,000 or $30,000. The difference between the two prices was solely at the discretion of the buyer. The promoter was a willing seller for $10,000. Therefore, the value of Quinn's contribution of the books is $10,000, the amount at which similar lots of books could be purchased from the promoter by members of the general public.

Replacement Cost

The cost of buying, building, or manufacturing property similar to the donated item may be considered in determining FMV. However, there must be a reasonable relationship between the replacement cost and the FMV.

The replacement cost is the amount it would cost to replace the donated item on the valuation date. Often, there is no relationship between the replacement cost and the FMV. If the supply of the donated property is more or less than the demand for it, the replacement cost becomes less important.

To determine the replacement cost of the donated property, find the "estimated replacement cost new." Then subtract from this figure an amount for depreciation due to the physical condition and obsolescence of the donated property. You should be able to show the relationship between the depreciated replacement cost and the FMV, as well as how you arrived at the “estimated replacement cost new.”

Opinions of Professional Appraisers

Generally, the weight given to a professional appraiser’s opinion on matters such as the authenticity of a coin or a work of art, or the most profitable and best use of a piece of real estate, depends on the knowledge and competence of the professional appraiser and the thoroughness with which the opinion is supported by experience and facts. For a professional appraiser’s opinion to deserve much weight, the facts must support the opinion. For additional information, see *Appraisal*, later.

Problems in Determining FMV

There are a number of problems in determining the FMV of donated property.

Unusual Market Conditions

The sale price of the property itself in an arm's-length transaction in an open market is often the best evidence of its value. When you rely on sales of comparable property, the sales must have been made in an open market. If those sales were made in a market that was artificially supported or stimulated so as not to be truly representative, the prices at which the sales were made will not indicate the FMV.

For example, liquidation sale prices usually do not indicate the FMV. Also, sales of stock under unusual circumstances, such as sales of small lots, forced sales, and sales in a restricted market, may not represent the FMV.

Selection of Comparable Sales

Using sales of comparable property is an important method for determining the FMV of donated property. However, the amount of weight given to a sale depends on the degree of similarity between the comparable and the donated properties. The degree of similarity must be close enough so that this selling price would have been given consideration by reasonably well-informed buyers or sellers of the property.

Example. You give a rare, old book to your former college. The book is a third edition and is in poor condition because of a missing back cover. You discover that there was a sale for $300, near the valuation date, of a first edition of the book that was in good condition. Although the contents are the same, the books are not at all similar because of the different editions and their physical condition. Little consideration would be given to the selling price of the $300 property by knowledgeable buyers or sellers.

Future Events

You may not consider unexpected events happening after your donation of property in making the valuation. You may consider only the facts known at the time of the gift, and those that could reasonably be expected at the time of the gift.

Example. You give farmland to a qualified charity. The transfer provides that your mother will have the right to all income and full use of the property for her life. Even though your mother dies 1 week after the transfer, the value of the property on the date it is given is its present value, subject to the life interest as estimated from actuarial tables. You may not take a higher deduction because the charity received full use and possession of the land only 1 week after the transfer.

Using Past Events To Predict the Future

A common error is to rely too much on past events that do not fairly reflect the probable future earnings and FMV.

Example. You give all your rights in a successful patent to your favorite charity. Your records show that before the valuation date there were three stages in the patent's history of earnings. First, there was rapid growth in earnings when the invention was introduced. Then, there was a period of high earnings when the invention was being exploited. Finally, there was a decline in earnings when competing inventions were introduced. The entire history of earnings may be relevant in estimating the future earnings. However, the appraiser must not rely too much on the stage of rapid growth in earnings or of high earnings. The market conditions at those times do not represent the condition of the market at the valuation date. What is most significant is the trend of decline in earnings up to the valuation date. For more information about donations of patents, see *Patents*, later.

Valuation of Various Kinds of Property

This section contains information on determining the FMV of ordinary kinds of donated property. For information on appraisals, see *Appraisal*, later.

Household Items

The FMV of used household items is usually much lower than the price paid when new. Household items include furniture, furnishings, electronics, appliances, linens, and similar items. Household items do not include paintings, antiques, objects of art, jewelry, gems, and collections like stamp and coin collections. Such used property may have little or no market value because it may be out of style.

You cannot take an income tax charitable contribution deduction for household items unless they are in good used condition or better. The one exception to this is a household item that is not in good used condition or better for which you claim an income tax charitable contribution deduction of more than $500. In this case, you must obtain a qualified appraisal valuing the item and complete a Form 8283. See *Deduction over $500 for certain clothing or household items*, later.

If the property is valuable because it is old or unique, see *Art and Collectibles*, later.

Used Clothing

Used clothing and other personal items are usually worth far less than the price you paid for them. Valuation of items of clothing does not lend itself to fixed formulas or methods.

The price that buyers of used items actually pay in used clothing stores, such as consignment or thrift shops, is an indication of the value.

You cannot take an income tax charitable contribution deduction for an item of clothing unless it is in good used condition or better. An item of clothing that is not in good used condition or better for which you claim an income tax charitable contribution deduction of more than $500 requires a qualified appraisal and a completed Form 8283. See *Deduction over $500 for certain clothing or household items*, later.

Art and Collectibles

Your income tax charitable contribution donation of art and collectibles, for which you claim a deduction of more than $5,000 must be supported by a qualified appraisal and a Form 8283. See *Qualified Appraisal*, later.

Art valued at $20,000 or more. If you claim a deduction of $20,000 or more for an income tax charitable contribution donation of art, you must attach the qualified appraisal for the art. A photograph of a size and quality fully showing the object, preferably a highresolution digital image, must be provided if requested.

Art valued at $50,000 or more. If you donate an item of art that has been appraised at $50,000 or more, you can request a Statement of Value for that item from the IRS. You must request the statement before filing the tax return that reports the donation. Your request must include the following.

- A copy of a qualified appraisal of the item. See *Qualified Appraisal*, later.
- A user fee of $7,500 for one to three items and $400 for each additional item paid through *Pay.gov*. A payment confirmation will be provided to you through the *Pay.gov* portal and you should submit the payment confirmation with your Statement of Value request.
- A completed Form 8283, Section B.
- The location of the IRS territory that has examination responsibility for your return.

If your request lacks essential information, you will be notified and given 30 days to provide the missing information.

Send your request to:

Internal Revenue Service/Appeals
Attn: Art Appraisal Services
Request for Statement of Value
1111 Constitution Ave. NW, Room 3615
Washington, DC 20224–0002

Refunds. You can withdraw your request for a Statement of Value at any time before it is issued. However, the IRS will not refund the user fee if you do.

If the IRS declines to issue a Statement of Value in the interest of efficient tax administration, the IRS will refund the user fee.

Art. Because many kinds of art may be the subject of a charitable donation, it is not possible to discuss all of the possible types in this publication. Most common are paintings, sculptures, watercolors, prints, drawings, ceramics, antiques, decorative arts, textiles, carpets, silver, rare manuscripts, and historical memorabilia.

Authenticity. The professional appraiser should use reasonable due diligence to determine or confirm the authenticity of a donated art work. This due diligence may include verifying whether the art work is included in the relevant catalogue raisonné (a scholarly listing of all known works by a specific artist), has an assigned foundation number when relevant, is included in a comprehensive on-line archive, or whether the art work has an accompanying certificate of authenticity from a recognized authority or expert on the artist.

Physical condition. The physical condition and extent of restoration are both relevant in determining the valuation of art and antiques. These factors should be addressed in the appraisal. An antique in damaged condition lacking the "original brasses," may be worth much less than a similar piece in excellent condition.

Collectibles. Because many kinds of collectibles may be the subject of a charitable donation, it is not possible to discuss all of the possible types in this publication. Most common are rare books, autographs, sports memorabilia, dolls, manuscripts, stamps, coins, guns, gems, jewelry, music and entertainment memorabilia, comics, toys, and natural history items.

Reference material. Publications available to help you determine the value of many kinds of collections include catalogs, dealers' price lists, and specialized hobby periodicals. When using one of these price guides, you must use the current edition at the date of contribution.

These sources are not always reliable indicators of FMV and should be supported by other evidence.

For example, a dealer may sell an item for much less than is shown on a price list, particularly after the item has remained unsold for a long time. The price an item sold for in an auction may have been the result of a rigged sale or a mere bidding duel. The appraiser must analyze the reference material, and recognize and make adjustments for misleading entries. If you are claiming an income tax charitable contribution deduction for the donation of a collection valued at more than $5,000, you must obtain a qualified appraisal and complete a Form 8283.

Gems and jewelry. Gems and jewelry are of such a specialized nature that it is almost always necessary to get an appraisal by a specialized jewelry appraiser. The appraisal should describe, among other things, the style of the jewelry, the cut and setting of the gem, and whether it is now in fashion. The stone's coloring, weight, cut, brilliance, and flaws should be reported and analyzed. Sentimental personal value has no effect on FMV. But if the jewelry was owned by a famous person, its value might increase. GIA certificates and color photos should be included in jewelry appraisals.

Stamp collections. Most libraries have catalogs or other books that report the publisher's estimate of values. Generally, two price levels are shown for each stamp: the price postmarked and the price not postmarked. Contact an appraiser for assistance with properly valuing stamp collections.

Coin collections. Many catalogs and other reference materials show the writer's or publisher's opinion of the value of coins on or near the date of the publication. Like many other collectors' items, the value of a coin depends on the demand for it, its age, and its rarity. Another important factor is the coin's condition. For example, there is a great difference in the value of a coin that is in mint condition and a similar coin that is only in good condition.

Use caution when consulting price guides for coins as only a trained grader can distinguish the difference between various Mint State grades and circulated grades including extremely fine, very fine, fine, very good, good, fair, or poor. The difference in value between one grade and another could be vast.

Books. The value of books is usually determined by selecting comparable sales and adjusting the prices according to the differences between the comparable sales and the item being evaluated. This can be difficult to do and, except for a collection of little value, should be done by a specialized appraiser.

Modest value of collection. If the collection you are donating is of modest value, not requiring a written appraisal, the following information may help you in determining the FMV.

A book that is very old, or very rare, is not necessarily valuable. There are many books that are very old or rare, but that have little or no market value.

Condition of book. The condition of a book may have a great influence on its value. Collectors are interested in items that are in fine, or at least good, condition. When a book has a missing page, a loose binding, tears, or stains, or is otherwise in poor condition, its value is greatly lowered.

Other factors. Some other factors in the valuation of a book are the kind of binding (leather, cloth, paper), page edges, and illustrations (drawings and photographs). Collectors usually want first editions of books. However, because of changes or additions, other editions are sometimes worth as much as, or more than, the first edition.

Manuscripts, autographs, diaries, and similar items. When these items are handwritten, or at least signed by famous people, they are often in demand and are valuable. However, the noteworthiness of an author is not the only determining factor; the writings of unknown or obscure authors may also be of value if they are of unusual historical or literary importance. Determining the value of such material is difficult. For example, there may be a great difference in value between two diaries that were kept by a famous person—one kept during childhood and the other during a later period in their life. The appraiser determines a value in these cases by applying knowledge and judgment to such factors as comparable sales and market conditions.

Cars, Boats, and Aircraft

If you donate a car, a boat, or an aircraft to a charitable organization, its FMV must be determined.

Certain commercial firms and trade organizations publish monthly or seasonal guides for different regions of the country, containing complete dealer sale prices or dealer average prices for recent model years. Prices are reported for each make, model, and year. 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 at a bank, credit union, or finance company. You can also find pricing information about used cars on the Internet.

An acceptable measure of the FMV of a donated car, boat, or airplane is an amount not in excess of the price listed in a used vehicle pricing guide for a private party sale, not the dealer retail value, of a similar vehicle. However, the FMV may be less than that amount if the vehicle has engine trouble, body damage, high mileage, or any type of excessive wear. The FMV of a donated vehicle is the same as the price listed in a used vehicle pricing guide for a private party sale only if the guide lists a sales price for a vehicle that is the same make, model, and year, sold in the same area, in the same condition, with the same or similar options or accessories, and with the same or similar warranties as the donated vehicle.

Example. You donate a used car in poor condition to a local high school for use by students studying car repair. A used car guide shows the dealer retail value for this type of car in poor condition is $1,600. However, the guide shows the price for a private party sale of the car is only $750. The FMV of the car is considered to be no more than $750.

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 so critical to the value.

More information. Your deduction for a donated car, boat, or airplane is generally limited to the gross proceeds from its sale by the qualified organization. This rule applies if the claimed value of the donated vehicle is more than $500. In certain cases, you can deduct the vehicle's FMV. For details, see Pub. 526.

Inventory

If you donate any inventory item to a charitable organization, the amount of your deductible contribution is generally the FMV of the item, minus any gain you would have realized if you had sold the item at its FMV on the date of the gift. For more information, see Pub. 526.

Patents

To determine the FMV of a patent, you must take into account, among other factors:

- Whether the patented technology has been made obsolete by other technology;
- Any restrictions on the donee's use of, or ability to transfer, the patented technology; and
- The length of time remaining before the patent expires.

However, your deduction for a donation of a patent or other intellectual property is its FMV, minus any gain you would have realized if you had sold the property at its FMV on the date of the gift. Generally, this means your deduction is the lesser of the property's FMV or its basis. For details, see Pub. 526.

Stocks and Bonds

The value of stocks and bonds is the FMV of a share or bond on the valuation date. See *Date of contribution*, earlier, under What Is Fair Market Value (FMV)?

Selling prices on valuation date. If there is an active public market for the contributed stocks or bonds on a stock exchange, in an over-the-counter market, or elsewhere, the FMV of each share or bond is the average price between the highest and lowest quoted selling prices on the valuation date. For example, if the highest selling price for a share was $11 and the lowest $9, the average price is $10. You get the average price by adding $11 and $9 and dividing the sum by 2.

No sales on valuation date. If there were no sales on the valuation date, but there were sales within a reasonable period before and after the valuation date, you determine FMV by taking the average price between the highest and lowest sales prices on the nearest date before and on the nearest date after the valuation date. Then you weight these averages in inverse order by the respective number of trading days between the selling dates and the valuation date.

Example. On the day you gave stock to a qualified organization, there were no sales of the stock. Sales of the stock nearest the valuation date took place 2 trading days before the valuation date at an average selling price of $10 and 3 trading days after the valuation date at an average selling price of $15. The FMV on the valuation date was $12, figured as follows.

$$[(3 \times \$10) + (2 \times \$15)] \div 5 = \$12$$

Listings on more than one stock exchange. Stocks or bonds listed on more than one stock exchange are valued based on the prices of the exchange on which they are principally dealt. This applies if these prices are published in a generally available listing or publication of general circulation. If this is not applicable, and the stocks or bonds are reported on a composite listing of combined exchanges in a publication of general circulation, use the composite list. See also *Unavailable prices*, later.

Bid and asked prices on valuation date. If there were no sales within a reasonable period before and after the valuation date, the FMV is the average price between the bona fide bid and asked prices on the valuation date.

Example. Although there were no sales of Blue Corporation stock on the valuation date, bona fide bid and asked prices were available on that date of $14 and $16, respectively.

The FMV is $15, the average price between the bid and asked prices.

No prices on valuation date. If there were no prices available on the valuation date, you determine FMV by taking the average prices between the bona fide bid and asked prices on the closest trading date before and after the valuation date. Both dates must be within a reasonable period. Then you weight these averages in inverse order by the respective number of trading days between the bid and asked dates and the valuation date.

Example. On the day you gave stock to a qualified organization, no prices were available. Bona fide bid and asked prices 3 days before the valuation date were $10 and 2 days after the valuation date were $15. The FMV on the valuation date is $13, figured as follows.

[(2 x $10) + (3 x $15)] ÷ 5 = $13

Prices only before or after valuation date, but not both. If no selling prices or bona fide bid and asked prices are available on a date within a reasonable period before the valuation date, but are available on a date within a reasonable period after the valuation date, or vice versa, then the average price between the highest and lowest of such available prices may be treated as the value.

Large blocks of stock. When a large block of stock is put on the market, it may lower the selling price of the stock if the supply is greater than the demand. On the other hand, market forces may exist that will afford higher prices for large blocks of stock. Because of the many factors to be considered, determining the value of large blocks of stock usually requires the help of experts specializing in underwriting large quantities of securities or in trading in the securities of the industry of which the particular company is a part.

Unavailable prices. If selling prices (or bid and asked prices) are not available, you should work with a professional appraiser to determine the FMV of the bond or stock on the valuation date because the analysis requires consideration of factors similar to those used to value an *Interest in a Business* below.

Restricted securities. Some classes of stock cannot be traded publicly because of restrictions imposed by the Securities and Exchange Commission, or by the corporate charter or a trust agreement. These restricted securities usually trade at a discount in relation to freely traded securities.

You should work with a professional because the analysis requires consideration of factors similar to those used to value an Interest in a Business, below.

Real Estate

Because each piece of real estate is unique and its valuation is complicated, a detailed appraisal by a professional appraiser is necessary.

The appraiser must be thoroughly trained in the application of appraisal principles and theory. In some instances, the opinions of equally qualified appraisers may carry unequal weight, such as when one appraiser has a better knowledge of local conditions.

The appraisal report must contain a complete description of the property, such as street address, legal description, and lot and block number, as well as physical features, condition, and dimensions. The use to which the property is put, zoning and permitted uses, and its potential use for other higher and better uses are also relevant.

In general, there are three main approaches to the valuation of real estate. An appraisal may require the combined use of two or three methods rather than one method only.

1. Comparable Sales

The comparable sales method compares the donated property with several similar properties that have been sold. The selling prices, after adjustments for differences in date of sale, size, condition, and location, would then indicate the estimated FMV of the donated property.

If the comparable sales method is used to determine the value of unimproved real property (land without significant buildings, structures, or any other improvements that add to its value), the appraiser should consider the following factors when comparing the potential comparable property and the donated property.

- Location, size, and zoning or use restrictions.
- Accessibility and road frontage, and available utilities and water rights.
- Riparian rights (right of access to and use of the water by owners of land on the bank of a river) and existing easements, rights-of-way, leases, etc.
- Soil characteristics, vegetative cover, and status of mineral rights.
- Other factors affecting value.

For each comparable sale, the appraisal must include the names of the buyer and seller, the deed book and page number, the date of sale and selling price, a property description, the amount and terms of mortgages, property surveys, the assessed value, the tax rate, and the assessor's appraised FMV.

The comparable selling prices must be adjusted to account for differences between the sale property and the donated property. Because differences of opinion may arise between appraisers as to the degree of comparability and the amount of the adjustment considered necessary for comparison purposes, an appraiser should document each item of adjustment.

Only comparable sales having the least adjustments in terms of items and/or total dollar adjustments should be considered as comparable to the donated property.

2. Capitalization of Income

This method capitalizes the net income from the property at a rate that represents a fair return on the particular investment at the particular time, considering the risks involved. The key elements are the determination of the income to be capitalized and the rate of capitalization.

3. Replacement Cost New or Reproduction Cost Minus Observed Depreciation

This method, used alone, usually does not result in a determination of FMV. Instead, it generally tends to set the upper limit of value, particularly in periods of rising costs, because it is reasonable to assume that an informed buyer will not pay more for the real estate than it would cost to reproduce a similar property. Of course, this reasoning does not apply if a similar property cannot be created because of location, unusual construction, or some other reason. Generally, this method serves to support the value determined from other methods. When the replacement cost method is applied to improved realty, the land and improvements are valued separately.

The replacement cost of a building is figured by considering the materials, the quality of workmanship, and the number of square feet or cubic feet in the building. This cost represents the total cost of labor and material, overhead, and profit. After the replacement cost has been figured, consideration must be given to the following factors.

- Physical deterioration—the wear and tear on the building itself.
- Functional obsolescence—usually in older buildings with, for example, inadequate lighting, plumbing, or heating; small rooms; or a poor floor plan.
- Economic obsolescence—outside forces causing the whole area to become less desirable.

Interest in a Business

The FMV of any interest in a closely held business (whether a sole proprietorship or a business taxed as a corporation or partnership) is the amount that a willing buyer would pay for the interest to a willing seller after consideration of all relevant factors. Because of the many factors to be considered in determining the FMV of an interest in a closely held business, the help of experts is usually required. Such a determination requires the consideration of all available financial data, as well as all relevant factors affecting FMV. The following factors, although not all-inclusive, may be helpful.

- The business's net worth and prospective earning power.
- The nature and history of the business.
- The economic outlook of the industry in which the business operates.
- The business's position in the industry, its competitors, and its management.
- The FMV of assets of the business including goodwill, if applicable.
- The value of interests in businesses engaged in the same or similar industries.

You should keep complete financial and other information on which the valuation is based. This includes copies of reports of examinations of the business made by accountants, engineers, or any technical experts on or close to the valuation date.

Annuities, Interests for Life or Terms of Years, Remainders, and Reversions

The FMV of these kinds of property is their present value, except in the case of annuities under contracts issued by companies regularly engaged in their sale. The valuation of these commercial annuity contracts and of insurance policies is discussed later under *Certain Life Insurance and Annuity Contracts*.

To determine present value, you must know the applicable interest rate and use actuarial tables.

Interest rate. The applicable interest rate varies. It is announced monthly in a news release and published in the Internal Revenue

Bulletin as a Revenue Ruling. The interest rate to use is under the heading “Rate Under Section 7520” for a given month and year. For a transfer involving a charitable interest, you may elect to use the interest rate for the month of the donation or the interest rate for either of the 2 preceding months. You must use the same interest rate to determine the present value of all interests in that property. You must attach a statement to the return to take the election. You can call the IRS office at 800-829-1040 to obtain this rate.

Actuarial tables. You need to refer to actuarial tables to determine the present value of a charitable interest in the form of an annuity, any interest for life or a term of years, or remainder interest donated to a charitable organization.

Use the actuarial tables set forth by regulation for these types of interests. These tables are referenced by and explained in IRS Pub. 1457, Actuarial Valuations, Version 4A;

Pub. 1458, Actuarial Valuations, Version 4B; and Pub. 1459, Actuarial Valuations, Version 4C. These publications provide examples showing the use of actuarial factors and contain links to the tables of factors to be used in determining the present value of an annuity, an interest for life or a term of years, or a remainder or reversionary interest.

Pub. 1457 explains the use of actuarial factors for computing the present value of a remainder interest in a charitable remainder annuity trust and a pooled income fund, as well as factors for annuities, life estates, term certain estates, and other remainder interests. Pub. 1458 explains the use of the factors for valuing the remainder interest in a charitable remainder unitrust. Pub. 1459 explains the use of factors to determine the present value of a remainder interest in depreciable property. You can download Pubs. 1457, 1458, and 1459 from *https://www.irs.gov/retirement-plans/actuarial-*

tables. Formulas for actuarial factors for transfers to pooled income funds may also be found in Regulations section 1.642(c)-6(e)(6), factors for transfers to charitable remainder unitrusts in Regulations section 1.664-4(e), and factors for other transfers in Regulations section 20.2031-7(d)(6).

Note. The tables referenced by Versions 4A, 4B, and 4C of the publications are effective for transfers on or after June 1, 2023. These tables use a more recent mortality basis than earlier tables. The earlier versions of the publications, Versions 3A, 3B, and 3C, are also available: these versions—and the actuarial tables they reference—are applicable for transfers after April 30, 2009, and before June 1, 2023. However, there is a transition rule under which you may elect to use the later tables (those referenced in Versions 4A, 4B, and 4C) for valuing interests transferred from May 1, 2019, through June 1, 2023. However, you must be consistent in using factors derived under the same mortality basis with respect to each interest (income, remainder, annuity, etc.) in the same property, and with respect to all transfers occurring on that valuation date. All of these publications and tables can be accessed from *https:// www.irs.gov/retirement-plans/actuarial-tables*.

Special factors. If you need a special factor for an actual transaction, you can request a letter ruling. Be sure to include the date of birth of each person the duration of whose life may affect the value of the interest. Also include copies of the relevant instruments. The IRS charges a user fee for providing special factors.

For more information about requesting a ruling, see Revenue Procedure 2024-1 (or annual update).

For information on the circumstances under which a charitable deduction may be allowed for the donation of a partial interest in property not in trust, see *Partial Interest in Property Not in Trust*, later.

Certain Life Insurance and Annuity Contracts

The value of an annuity contract or a life insurance policy issued by a company regularly engaged in the sale of such contracts or policies is the amount that company would charge for a comparable contract.

But if the donee of a life insurance policy may reasonably be expected to cash the policy rather than hold it as an investment, then the FMV is the cash surrender value rather than the replacement cost.

If an annuity is payable under a combination annuity contract and life insurance policy (for example, a retirement income policy with a death benefit) and there was no insurance element when it was transferred to the charity, the policy is treated as an annuity contract.

Partial Interest in Property Not in Trust

Generally, no deduction is allowed for a charitable contribution, not made in trust, of less than your entire interest in property. However, this does not apply to a transfer of less than your entire interest if it is a transfer of:

- A remainder interest in your personal residence or farm,
- An undivided part of your entire interest in property, or
- A qualified conservation contribution.

Remainder Interest in Real Property

The amount of the deduction for a donation of a remainder interest in real property is the FMV of the remainder interest at the time of the contribution, determined as the present value of that remainder interest. To determine the present value of the remainder interest, you must know the FMV of the property as a whole (from which the remainder interest is donated) on the date of the contribution. Multiply the FMV of the whole property by the appropriate remainder factor. Examples in Pubs. 1457, 1458 and 1459 show how to use these factors and contain links to these tables.

If the underlying property of which the remainder interest being donated is depreciable property, you must make an adjustment for depreciation or depletion using the factors in Table C, as referenced by and explained in Pub. 1459, Actuarial Valuations, Version 4C. See *Annuities, Interests for Life or Terms of Years, Remainders, and Reversions*, earlier. You can download Pub. 1459 from *https://www.irs.gov/retirement-plans/ actuarial-tables*.

For this purpose, the term “depreciable property” means any property subject to wear and tear or obsolescence, even if not used in a trade or business or for the production of income.

If the remainder interest is an interest in real property that includes both depreciable and nondepreciable elements, for example, a house and land, the FMV of the underlying real property must be allocated between each kind of property at the time of the contribution. You must use distinct actuarial factors that apply separately to the depreciable portion and to the nondepreciable portion, in order to determine the present value of the entire remainder interest. The example provided in Pub. 1459 explains how to get both kinds of remainder factors and apply them separately to the two elements of the underlying property value. The sum of the present value of the remainder interest in the nondepreciable element of the underlying property, plus the present value of the remainder interest in the depreciable element of the underlying property, is the present value of the entire remainder interest in the property.

For more information, see Regulations section 1.170A-12.

Undivided Part of Your Entire Interest

A contribution of an undivided part of your entire interest in property must consist of a part of each and every substantial interest or right you own in the property. It must extend over the entire term of your interest in the property. For example, you are entitled to the income from certain property for your life (life estate) and you contribute 20% of that life estate to a qualified organization. You can claim a deduction for the contribution if you do not have any other interest in the property.

If the only interest you own in real property is a remainder interest in a personal residence or farm and you give your entire remainder interest to a qualifying charity under section 170(c), see _Annuities, Interests for Life or Terms of Years, Remainders, and Reversions_ above, for information on how to value that remainder interest.

Note. No income tax deduction is available if you give part of your remainder interest in any kind of property. See _Partial Interest in Property Not in Trust_, above.

Qualified Conservation Contribution

A qualified conservation contribution is a contribution of a qualified real property interest to a qualified organization to be used only for conservation purposes as defined in section 170(h) (4).

Qualified organization. For purposes of a qualified conservation contribution, a qualified organization is:

- A governmental unit;
- A publicly supported charitable, religious, scientific, literary, educational, etc., organization; or
- An organization that is controlled by, and operated for the exclusive benefit of, a governmental unit or a publicly supported charity.

The organization must also have a commitment to protect the conservation purposes of the donation and must have the resources to enforce the restrictions.

Note. A qualified organization is a certain group of charities than a charity that qualifies under section 170(c) for an income tax charitable deduction.

Conservation purposes. Your contribution must be made only for one of the following conservation purposes.

- Preserving land areas for outdoor recreation by, or for the education of, the general public.
- Protecting a relatively natural habitat of fish, wildlife, or plants, or a similar ecosystem.
- Preserving open space, including farmland and forest land, if it yields a significant public benefit. It must be either for the scenic enjoyment of the general public or under a clearly defined federal, state, or local governmental conservation policy.
- Preserving a historically important land area or a certified historic structure. There must be some visual public access to the property. Factors used in determining the type and amount of public access required include the historical significance of the property, the remoteness or accessibility of the site, and the extent to which intrusions on the privacy of individuals

living on the property would be unreasonable.

Certified historic structures. A certified historic structure is a building that is listed individually in the National Register of Historic Places (National Register building), or a building that is located in a registered historic district and has been certified by the Secretary of the Interior as contributing to the historic significance of that district (historically significant building). If the individual listing in the National Register of Historic Places consists of a more than one building (for example, a house, a garage, a mill complex, etc.) the Secretary of the Interior may have to certify which of the multiple buildings qualify as certified historic structures.