

APPENDIX G

DONATION OF A HORSE TO A PONY CLUB

If a club has been offered a horse as a gift, it should consider several factors before accepting the gift. The following are general guidelines, but may become outdated. Always check with an accountant to make sure proper procedures are followed in accepting a gift such as a horse.

Gift for use by club: A Pony Club which is offered a horse for its use should consider the following:

IRS: If the donor claims a deduction on his or her Federal income tax return in excess of \$5,000 for the value of the donated horse, the Pony Club will be asked by the donor to sign an IRS Form 8283 which acknowledges receipt of the horse and obligates the Pony Club to file an information report with the IRS if it sells the horse within two (2) years of the gift. The information report on IRS Form 8282 must set forth the name of the donor, the donor's tax ID number, a description of the horse, the date of contribution, date of disposition and amount received. Failure to file this report can subject the Pony Club to penalties.

Liability Insurance: USPC now has Commercial Equine Liability Coverage, which protects a Pony Club from claims for liability arising from damages caused by a horse owned by a Pony Club. An alternative would be to have the insurance policy of another person provide liability coverage for damages caused by this horse. This can be accomplished by a lease agreement between the club and the family using the horse, in which the family agrees to hold the club harmless from any liability arising from actions of the horse. In this respect, the club should be named as an additional insured in the homeowners or other liability policy of the family using the horse. The family should check with its insurance agent to make sure coverage is in effect for a non-owned horse under the care, custody and control of the family.

Acceptance of Gift: Since acquisition of a horse is a significant step for a Pony Club and may place financial responsibilities upon it, the governing body of a club should approve the transaction before an officer, including the District Commissioner, accepts a donated horse. Several things to remember and consider before acceptance include:

- ▶ vet bills if the horse should become ill
- ▶ board bills if the club must board the horse and long-term board if the horse is no longer usable
- ▶ liability if someone else is going to ride the horse

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Gifts followed by a prompt sale: If the intention of the club is to sell the horse upon receiving it and use the proceeds to finance activities of the clubs, it should inform the donor of this intention because the resale may have an adverse effect upon the tax-planning of the donor. In such event if the donor is claiming a deduction of more than \$5,000, the Pony Club will be obligated to advise the IRS and the donor of the sale price. Normally in these circumstances the donor would be better served by selling the horse and giving the proceeds to the Pony Club.

Conditions of Gift: The donor may ask a Pony Club to agree to conditions to the gift, such as the person who will care for the horse, or a promise that the club will not sell the horse. There are several issues to be considered by the donor and club before making such conditions:

1. The donor may set-up any restrictions they like, but any restrictions to their gift would mean the gift would not qualify as a deduction on the donor's tax return.
2. Restricted gifts would likely be treated as a partial interest donation, which does not qualify as a charitable donation.

“Generally, you cannot deduct a charitable contribution of less than the entire interest in the property.” IRS Publication 526, revised 2003

The only time a partial interest may be deducted is in the event that you donate a “remainder interest” in your personal home or farm – i.e., the right to live in your home during your lifetime and give the charity a remainder interest that begins upon your death. Generally, the horse donation scenario does not fit this criterion.

3. Another guideline from the IRS that applies to a horse donation with strings attached is their restriction regarding conditional gifts. If there is a reasonable chance that the horse “won't work out” in the future, the donor may not take the deduction.

“If your contribution is a conditional gift that depends on a future act or event, that may not take place, you cannot take the deduction. But, if there is only a negligible chance that the act or event will not take place, you can take the deduction.” IRS Publication 526, revised 2003

4. One last restriction from the IRS involves the gift (horse) contribution being for the use of the qualified organization (Pony Club), and not set aside for a specific person. Therefore, if the donated horse is given with instruction that it is specifically for use by Mary Sue Ponyclubmember, the donation is not tax-deductible.

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Information for the donor of the horse: The following information has been provided by the American Horse Council.

In order to deduct the fair market value of a horse contributed to charity, the horse must be used by the charity in connection with the charitable purpose of the charity. The horse must have been held for sporting, breeding or draft purposes for at least 24 months prior to the gift. Certain records must be kept and valuation established as described below.

Records to be kept:

1. name and address of the recipient charity;
2. date of the contribution;
3. location of the contribution;
4. a description of the horse in “detail reasonably sufficient under the circumstances”; in other words, the greater the value of the horse, the more detail will be required;
5. the fair market value (FMV) of the horse at the time of contribution and the method used in determining the FMV, including, if an appraisal is used, a written and signed copy of the appraisal;
6. the terms of any agreement or understanding relating to the use or disposition of the horse.

When the horse is worth more than \$250 but less than \$5,000, in addition to the foregoing, the donor must also have a written acknowledgement from the recipient charity. That acknowledgement must include:

1. a description of the horse;
2. a statement concerning whether or not any goods or services were provided by the recipient charity to the donor in whole or in part in exchange for the horse; and
3. a description and good faith estimate of the value and/or services (if any) by the donor in exchange for the horse.

When the horse is worth more than \$5,000, the donor must fill out and file IRS Form 8283. In addition to the items described above, Form 8283 requires the following information:

1. how was the horse acquired?
2. date of the acquisition of the horse.
3. the cost, or other basis of the horse, including any basis adjustments (generally means depreciation deductions previously taken).
4. an appraisal summary.

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The “appraisal summary” required by Form 8283

1. must be signed by the charitable recipient, or at least have been presented to the charitable recipient by signature;
2. must be signed and dated by the “qualified appraiser” who prepared the “qualified appraisal”; and
3. must contain information about the donor, the donee, the appraiser and any other information which may be specified in the form.

A separate “qualified appraisal” is required for each horse donated for which a deduction of \$5,000 or more is claimed, unless multiple horses, or a herd is donated at one time, provided that each horse must be separately described and specific value must be assigned to each horse. The qualified appraisal must be prepared, signed and dated by a qualified appraiser, and contain the following information:

1. a description of the horse;
2. a description of the physical condition of the horse;
3. the date or expected date of the contribution;
4. the terms of any use, sale or other disposition of the horse;
5. the identity and qualifications (background experience, education and professional affiliations, memberships, etc.) of the appraiser;
6. a statement that the appraisal was prepared for income tax purposes;
7. the date of the appraisal;
8. the appraised value of the horse on the date of the contribution;
9. the method used for valuation (e.g., market data);
10. the specific basis for valuation (e.g., comparable sales).

The qualified appraisal must be made not earlier than 60 days prior to the date of contribution, and not later than the due date of the return (including extensions) on which the charitable contribution deduction is made.

The term “qualified appraiser” is defined as an individual who:

1. holds him or herself out to the public as an appraiser or who performs appraisals on a regular basis;
2. is able to make appraisals of horse(s) appraised because of his or her qualifications as described within the appraisal;

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3. is not within a group of disqualified people, including: the donor, the person who sold, exchanged or gave the horse to the donor, and/or any employee, relative or spouse of such a disqualified person;
4. has signed the written acknowledgement that intentionally false for fraudulent overstatements of value of the property appraised may subject the appraiser to penalties.

The fee charged for the appraisal may not be based upon a percentage of the appraised value of the property appraised. The appraisal fees paid, as well as any fees paid for tax advice about the charitable contribution are not considered, for purposes of the charitable contribution deduction, to be part of the contribution, so they are not deductible as charitable contributions. Such expenses can be deducted as expenses of preparation of a tax return, but are subject to the limitation on Schedule A deductions.

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PROPER ACKNOWLEDGEMENT OF HORSE/PONY DONATIONS

It is important that the donor receive the proper acknowledgement for any donation of a horse or pony. Each club is assigned an EIN number, which is listed in the Annual Directory. The National Office can also provide any additional materials, if needed.

Sample Acknowledgement Letter

Dear Donor:

This is to acknowledge receipt of your gift of (detailed description of the horse/pony). Valuation of the gift is your responsibility. You should discuss with your tax advisor the requirements to comply with the US Internal Revenue Codes.

Please find enclosed a copy of the letter of determination from the IRS which classifies gifts to our organization as “deductible by the donors in computing their taxable income...to the extent allowed by law.” Also be advised that our tax identification number is (quote your local club Federal ID number).*

Your interest and support of our goals to further improve Pony Club instruction is greatly appreciated.

Sincerely,

Jane Doe (District Commissioner)

*Copies available from the National Office.