

Brutal IRS Trap Wipes Out Goodwill Clothing Deductions

Introduction

If you donate clothing or household goods to charity, there's an IRS trap you need to know about.

In a recent Tax Court case, a taxpayer lost a \$6,760 charitable deduction—not because the donations were improper, but because his documentation failed to meet strict technical requirements. The court didn't question his generosity. It denied the deduction because the receipts and Form 8283 were incomplete.

Here's the key issue: For non-cash donations over \$250, you must obtain a contemporaneous written acknowledgment from the charity. For donations over \$500, you must also maintain detailed records showing what you donated, when you acquired the items, and their cost or basis. Form 8283 must be completed accurately, including donation dates and fair market values.

Generic receipts that say "miscellaneous household items" are not enough. And once an audit begins, you cannot fix missing documentation afterward. The deduction is simply lost.

The safest approach is proactive. Before donating, prepare a detailed list of items, including descriptions and estimated values; take photographs; and provide the list to the charity so it can reference the list in its acknowledgment. Keep all supporting records with your tax files.

The bottom line: Good intentions are not sufficient. With charitable deductions, documentation is everything.

SE Rules for Converting a Business Vehicle to Personal Use

If you are a sole proprietor and considering converting a business vehicle to personal use, it's important to understand the tax consequences before making the switch.

While the conversion itself may appear simple, the tax impact can arise either immediately or later—and sometimes in unexpected ways.

If you used the IRS standard mileage rate for the business vehicle, the conversion to personal use is generally not a taxable event.

But depreciation is built into each mileage deduction (for example, 35 cents of the 72.5-cent 2026 rate counts as depreciation). When you later sell the vehicle, you must calculate a gain or loss based on the vehicle's adjusted business basis. Many taxpayers overlook the fact that a deductible business loss may still be available years after conversion. Importantly, only the business portion of the loss is deductible, and any gain attributable to the business portion is taxable.

By contrast, if you used the actual expense method—especially with bonus depreciation or Section 179 expensing—the rules are less forgiving. A drop in business use to 50 percent or less triggers Section 280F recapture immediately.

This requires you to recompute depreciation using the straight-line method and pay tax on any excess previously deducted. Later, when you sell the vehicle, you must again calculate gain or loss based on the adjusted basis. In these cases, converting the vehicle creates a two-step tax consequence: recapture now, and potential gain or loss later.

One final caution: selling the vehicle to a related party (such as a spouse, parent, child, or sibling, or a corporation you control) can permanently disallow a loss deduction. To preserve potential tax benefits, make your sale to an unrelated third party.

How a \$7,970 Tax Case Cost the IRS an Extra \$34,081

Fighting the IRS can be extremely time-consuming and expensive. But if you prevail against the IRS, it is possible to get the court to make an award of attorney fees so you don't have to pay them all out of your own pocket.

It's not easy to get a court to award attorney fees against the IRS. Ordinarily, you must not only win your case, but also show that the IRS's position was not "substantially justified"—something that is very hard to do in most cases.

But there is a way to get around the substantially justified requirement: make a "qualified offer" to the IRS. This is an offer to settle the case for a specified amount. When you do this, you can get an award of attorney fees if you ultimately prevail in the case—that is, if the IRS's final result is no better than your offer. You can make a qualified offer:

- during the IRS examination (audit) after a 30-day letter,
- while the case is being appealed,
- after filing a Tax Court petition,
- during Tax Court litigation, or
- in a refund suit in the district court or the Court of Federal Claims.

A recent Tax Court case shows how powerful a qualified offer can be. Crystal Greenwald claimed a \$5,920 earned income tax credit and a \$2,050 additional child tax credit on her tax return. When the IRS denied the credits because she couldn't prove the children involved lived with her for more than six months during the year, she appealed to the IRS Office of Appeals. Her attorney made a qualified offer to the office for the full amount of the credits.

Appeals disregarded the offer—apparently because it was misplaced—but ultimately chose to pay Crystal the credits rather than continue the dispute in district court.

Because her attorney had made a valid qualified offer and Crystal ultimately prevailed, the district court awarded her \$34,081 in attorney fees.

She was not required to prove that the IRS's position lacked substantial justification—something she likely could not have established, since she never provided evidence that her children lived with her for more than six months.

Most IRS cases settle, so even with a qualified offer, you can't get attorney fees following a settlement unless you show that the IRS's position was not substantially justified (which is very difficult to show). Even so, making a qualified offer is worthwhile because it encourages the IRS to settle, knowing it could be on the hook for attorney fees if it doesn't settle and loses the case. Despite these benefits, taxpayers underuse qualified offers.

How One-Owner Businesses Win with the New 50% Childcare Credit

Beginning in 2026, the One Big Beautiful Bill Act increases the employer childcare credit for small businesses to 50 percent of qualified expenses, up to \$600,000 per year. Even one-owner businesses can benefit—and the savings are substantial.

If you operate as a sole proprietor, you cannot claim the credit for your own childcare because you are not an employee.

But if you hire your spouse as a legitimate W-2 employee, your business qualifies. For example, on \$20,000 in childcare expenses, the 50 percent credit results in a \$10,000 dollar-for-dollar tax reduction.

The remaining \$10,000 is deductible, producing additional tax savings. After your spouse pays tax on the wages, the household comes out thousands of dollars ahead.

Solo S corporation owner-employees also win. Although a more-than-5-percent owner must include the childcare benefit in W-2 wages, the combination of the 50 percent credit plus the deduction outweighs taxes paid on wage inclusion, resulting in thousands in savings.

The key driver is the 50 percent credit. When paired with a deduction for the remaining expense, the math is strongly favorable, despite the benefit being taxable.

Late Filing Costs Estate \$1.5M—Will Yours Be Next?

With today's \$15 million federal estate and gift tax exemption (\$30 million for married couples), it's easy to believe estate tax planning is no longer a concern. But a recent Tax Court case proves otherwise—an estate lost \$1.5 million simply because a portability election was not properly and timely filed.

Here's the key issue: When the first spouse dies, any unused estate tax exemption can be transferred to the surviving spouse—but only if the executor files a timely and properly completed Form 706 and elects portability. This is true even when no estate tax is owed.

Why does this matter? Because circumstances change. A surviving spouse's assets may grow significantly due to business success, investments, inheritance, or even future changes in the law that reduce the exemption amount.

- Without the portability election, the unused exemption is permanently lost.
- With it, the surviving spouse may preserve millions of dollars in additional tax-free protection.

The filing deadline is generally nine months after death (with a six-month extension available). Even estates below the filing threshold can use a simplified Form 706 if the sole purpose is to elect portability. But if the return is not properly filed within the allowable window, the opportunity disappears forever.

The lesson is simple: if you are married, make sure your executor understands the importance of filing Form 706 and electing portability—no matter how modest the estate may seem today.

\$12,000 Door Replacement: Repair or 39-Year Asset?

When a five-figure commercial building expense hits your desk, the first question is simple: Can you deduct it, or must you depreciate it over 39 years?

Consider a recent example. An office building owner replaced a failed sliding glass door and frame at a total cost of \$12,000, including removal and installation. The new unit was the same brand, size, and quality as the old one. No upgrades. No redesign. No expansion.

Under the tax rules, expenses must be capitalized if they result in a betterment, an adaptation to a new or different use, or a restoration—the so-called BAR tests. Replacing a door with one of the same type and quality, without improving the building overall, does not clearly meet the capitalization tests. In situations like this, the strongest technical position is often to deduct the full amount as a repair under Section 162 of the tax code.

That said, conservative taxpayers may prefer to capitalize the cost. If you take that route, you must capitalize the entire \$12,000—including installation—and depreciate it over 39 years. The good news: you may also elect a partial disposition and deduct the remaining basis of the old door, which can produce a meaningful current write-off.

The key takeaway? Not every expensive building cost is a capital improvement. The tax result depends on the nature and scope of the work—not on the price tag.