

Your Tax Deductions With FRRS

by Joe Hill

The Portola Railroad Museum was established and continues to operate and prosper thanks to the contributions made by many of its members and friends. The question of the tax treatment of these contributions is an appropriate one to examine as another year is nearing its conclusion. There are three basic types of contributions to consider: cash contributions, which are deductible as a charitable deduction; contributions in the form of mileage, small tools, labor and equipment; and the third type which would cover the donation of major pieces of equipment such as locomotives and other rolling stock.

I have already addressed the first type, that being cash contributions, which are deductible. The second type is in widespread use here at FRRS, where many members drive long distances and also spend a lot of time and work which is essential to the continuation of the Museum. If these "non-cash" charitable deductions in their total exceed \$500, a form 8283 must be attached to your federal tax return, in which you must detail the type and amount of these non-cash contributions, and the IRS may use this as a means of choosing a tax return for audit examination. Your labor, and the professional expertise related to the labor, are simply not deductible as a charitable deduction, and they never have been. However, mileage driven for charitable purposes, such as participating in a work weekend, are currently deductible at the rate of twelve cents a mile, as many of our members do drive quite some distance to participate in museum projects. Some may also incur additional costs for overnight lodging, and in the case of an overnight stay, meals and telephone. A member in this situation should keep track of the dates and purposes of the visit and the work performed, for instance, work on two consecutive days by a member who lives in the bay area would reasonably entail an overnight stay with meal and lodging costs in addition to the mileage rate of twelve cents a mile.

The cost of tools and small equipment donated to the museum would also be deductible as a non-cash contribution. The many FRRS members who contribute this type of non-cash contribution, should keep a record of the valuation and detail of their non-cash contributions, bearing in mind that once the \$500 value is exceeded, that form 8283 must be completed, giving the details of the non-cash contribution.

The third type of contribution to be discussed is another non-cash contribution which must be listed and described

on the form 8283 would cover the case where a member or friend donates a major piece of equip-

ment to the museum, such as a vehicle, locomotive or other rolling stock. This type of contribution brings with it several other questions about the cost basis of the asset being donated, and its current value. Some of the items in the cost basis of a piece of rolling stock would include its actual cost to the donor, plus the cost of preparing it for the move to Portola, the cost of travel necessary to finalize the purchase, and the cost of moving the asset to Portola. The donor may have spent money to improve and repair the asset, and this would be another component of his cost basis of the asset being donated. The acquisition of a piece of antique rail

equipment would probably entail many of these expenses, and keeping track of them is important to determine the value of the charitable contribution.

The question now arises on how to treat a situation where a member or friend has a piece of railway equipment which he wishes to donate to the Museum, and his cost basis, as described in the previous paragraph is, say \$7,000, and he feels that its current appraised fair market value is, say \$15,000, that the donor has acquired this equipment some time ago, and that its current value considerably exceeds its actual cost basis. There are several things which should be considered and included on the form 8283. The first requirement is that it is necessary to have an appraisal to obtain a charitable deduction for a piece of tangible property, such as railway equipment if the current fair market value is over \$5,000. It is essential that this appraisal be made by a person or firm which is professionally competent to appraise that type of equipment, and that this appraiser must be independent of both the donor and the recipient. This means that Museum management should not under any circumstances participate in this appraisal, and neither should a relative or employee of the donor. An independent part such as a used equipment dealer or a person who deals or trades in this type of equipment and is independent of the donor and FRRS might be considered. The Museum management may wish to create and maintain a list of persons and firms which are independent from the Museum and the donor and who are professionally competent to appraise the value of the types of equipment that we would likely acquire. This appraisal must be completed not earlier than sixty days before the date of the contribution, and not later than the due date of the tax return. An appraisal made the day before the appointment for the tax audit may be disallowed. Simply stated, the appraisal should be made on or before the date of the donation. The form 8283 has a series of questions to be answered about the donated equipment and the qualifications of the appraiser.

The tax treatment of a donation of equipment which the donor has a cost basis of say, \$7,000, and on which a qualified appraiser places a current market value of say, \$15,000, raises additional tax questions about the \$8,000 difference between the basis and the current value. Prior to, and for years after 1991, the \$8,000 would be an item of preference income, and this might subject the donor to the Alternative Minimum Tax by both the Federal and California

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income taxes, but, for this type of contribution made during 1991 only, there is a one year window period

where the \$8,000 difference between cost basis and current market value is not a tax preference item. It goes without saying that a person who is considering a gift of tangible property which has a current fair market value considerably in excess of the cost basis should make the donation before the end of 1991 so as to avoid the liability which may result from the Alternative Minimum Tax. This A-M-T, or Preference Item Tax, as it is often called, has a way of sneaking up on many taxpayers. It requires a fairly

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complicated calculation on form 6251 on your federal tax return.

Whether we like it or not, taxes do have a way of intruding into our everyday decisions, and many museum members and friends are involved in a way that they are eligible for a charitable donation deduction on their tax returns. Unusual situations will occur, and the best advice if such a situation arises is to seek the advice of a competent tax preparer or a person who is Enrolled to Practice Before the

Internal Revenue Service, or a CPA. Our Museum has become a positive viable entity in a few short years, thanks to the donation of money, labor, professional expertise and equipment by a wide group of members and friends. We continue to have goals and aspirations to improve and build on that which has already been accomplished. The Museum needs additional help in this area, and donors and potential donors should be aware of the tax advantages and limitations, and steps to consider in their own tax planning.



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suggested a probable cause for the malfunctioning governor which we'll check out on the next work weekend.

Reflecting back on the past couple of years, I am struck by how many people have contributed to the work on the 805. This has truly been a team effort, and it makes me proud of the members of our society, just as the operation of the steam specials did. Thanks again for your help. And thanks to whomever turned on the outside floodlights that night -- you saved the videotape!

B Unit

Late in the evening of August 19, 1991, Steve Habeck stopped by my house and picked up the portholes for the B unit, as planned. Later in the week, Jack Palmer installed them, thereby greatly improving the appearance of the unit for the Railroad Days operations. The hinged portholes proved to be a different size, and they'll probably get new glass over the winter.

Next Steps for 805 Work

The next mechanical work is planned for Nov. 2 and 3, 1991, when we'll try to get the governor to behave and the

locomotive to move. We especially need people to help Bill Evans finish off the preparation and painting of 608. After that, cosmetic work on 805 can be completed. It may not be possible to finish by the NRHS convention, but it would sure be nice to be done by Railroad Days. Come join the fun!

- Repair dent in pilot.
- Clean out dirt, rust, etc. from interior of nose and spot prime.
- Fabricate and install replacement stirrup steps on pilot.
- Repair, prep middle side panels for painting.
- Complete sanding and polishing of stainless lower side panels.
- Obtain and install original cab windows.
- Check injector and valve timing.
- Tighten crankcase-oil pan bolts.
- Check control functions and move locomotive.
- Perform insulation resistance tests on traction motor, generator, and other high voltage cables.
- Inspect traction motor oil wick assemblies; replace damaged filler caps.

See you next time.....

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air system on one unit and a run-around hose was placed on the other unit. After the bearings were cleaned and lubricated, an SP inspector approved the move and the units were delivered to Richmond without any problems enroute. When LMC scraps the units, the traction motors, turbo and some other parts will be saved.

On September 3, 1991, the museum's 200 ton derrick was moved onto the east track 2, the outriggers positioned and the gondola with the trucks moved under the boom on track 1. Hank Stiles, who had been learning how to operate the derrick, successfully lifted the 24 ton trucks from the gon and placed them on the track. On September 5, 1991, retired WP/UP car foreman Bernie Coggin came up from Oroville to operate the derrick to unload the locomotive body and place it on its trucks. The operation involved lifting one end of the body, placing a heavy I beam under it on cribbing to clear the flat car, lifting the other end, pulling the flat car out, placing the trucks under and lowering the one end onto its truck. The other end was then lifted off the I beam, it was removed and this end lowered onto the truck. It took only about three hours for the unloading, but a lot more time was required to get everything ready. The I beam idea came from D. K. Henry, a retired Santa Fe mechanical supervisor who now works for Chrome Locomotive in San Bernardino. The

idea saved us the cost of a second crane. The FRRS crew working on the unloading were Norm Holmes, Nick Tynan, Dan Turner, Mardi Vincent and Ed Warren. Dean Hill recorded the operation on tape.

The two cars were returned to Port Chicago and loading of the second unit took place on September 13 and 16, 1991, by Norm Holmes, Fred James, Steve Habeck, and Wayne Monger and once again assisted by shop personnel at Concord. Due to problems with the tie-down cables, Hank Stiles, Jim Ley and Dave Anderson returned to Concord and rescued the cables. The locomotive and trucks arrived in Portola on October 11, 1991 and were unloaded on October 12 and 15, 1991. Bernie Coggin again came up from Oroville and with the assistance of Jim Ley, Hank Stiles, Dan Ogle and Brian Challenger successfully placed the second unit back on rails.

The two units now in Portola are 65-00541 and 65-00544. The 541 appears to be in the "best" condition and Norm will try to get it back into operating condition for use at the museum or possibly to lease, sell or trade the unit. The 544 will be held as a parts source for 541 and also can supply parts for the other museum's Alco locomotives with engines (RS-2, RS-3 and FA-2).