

## Documentation Is No Joke & Coffee Is Not Milk: Two Important Tax Rulings



At the Chester County Community Foundation, we value the role you play in helping individuals and families make the most of their charitable giving. That's why we're committed to providing regular updates on legal and policy developments that may impact your clients.

In two recent rulings, the underlying message is consistent: Courts and the IRS continue to apply the technical requirements governing charitable deductions with precision. Your clients' good intentions are not enough.

### Strict substantiation: A familiar but critical reminder

[\*Gibson v. Commissioner\*](#) serves as yet another reminder that it is really important for your clients to substantiate their charitable deductions. Time and again, both the IRS and the Tax Court have disallowed a taxpayer's deduction because rules were not followed. In *Gibson*, a married couple claimed nearly \$194,000 in noncash charitable contributions related to donated personal property. The court did not dispute that tangible items were transferred to a charitable organization. Instead, the deduction failed because the taxpayers did not satisfy the detailed substantiation requirements—specifically, contemporaneous written acknowledgments and qualified appraisal standards.

No matter how strong a client's desire to make a difference through charitable donations, technical compliance drives deductibility. [Form 8283](#) thresholds, appraisal rules, and acknowledgment language are not administrative formalities; they are statutory requirements. The *Gibson* case provides a practical example to share with clients who may be inclined to "drop off" significant in-kind gifts without first consulting their advisory team.

Here's the key takeaway: Even though you as an attorney, CPA, or financial advisor may fully understand the importance of following the rules, you *still* need to remind your clients regularly. You don't want a client to ask "Why didn't you tell us?" when they learn the hard way that they should have kept better records.

### Exempt status is not forever

The lesson in [\*Milk Saving Starving Children Foundation v. Commissioner\*](#) is that if you say you've got milk, you'd better have milk! In *Milk*, the Tax Court upheld the IRS's revocation of 501(c)(3) status for an organization that failed to operate exclusively for charitable purposes and conferred impermissible private benefits. The organization's stated mission—to distribute milk—was in fact charitable. Over time, though, its operations drifted away from distributing milk to operating a coffee shop and hosting a golf tournament.

Here's why we're sharing this case:

- The Tax Court's written opinion in *Milk* provides a terrific overview of the legal principles behind one of the cornerstones of tax-exempt status: a charity's ongoing activities must further its exempt purposes. As you bring new attorneys, CPAs, and financial advisors into your practice, the *Milk* case is simply terrific for training purposes.
- As it applies to your client work, remember the *Milk* case when a client expresses interest in supporting a lesser-known or newly formed organization. Please reach out to the Chester County Community Foundation in these instances because our team can provide insight on any charitable organization, whether well-established or new—and offer safeguards through field-of-interest funds and other vehicles.

Thank you for the opportunity to work together to serve your charitable clients! Our goal, as always, is to serve as a practical resource—helping you ensure that your clients’ charitable intentions are fulfilled with clarity, compliance, and confidence.

For more information, contact the Chester County Community Foundation:

Jason Arbacheski, CAP – Gift Planning & Stewardship Director – [jason@chescocf.org](mailto:jason@chescocf.org)

Karen Simmons – President/CEO – [karen@chescocf.org](mailto:karen@chescocf.org)

*The team at the Chester County Community Foundation is a resource and sounding board as you serve your philanthropic clients. We understand the charitable side of the equation and are happy to serve as a secondary source as you manage the primary relationship with your clients. This newsletter is provided for informational purposes only. It is not intended as legal, accounting, or financial planning advice.*