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Burn Baby Burn (But Don't Deduct)

It would be kind of satisfying to watch the local fire department scurry around your house doing training exercises if you didn't want your house anymore and were about to have it demolished anyway. Training exercises are worthwhile and can even save lives. Besides, the fire department is a good cause.

Hey, that means a write-off on your taxes too, perhaps a big one! Not so fast. Before the flames consume your once occupied abode you should read some tax cases, especially one the Seventh Circuit decided.



Image via nola.com

In [*Rolfs v. Commissioner*](#), the Court of Appeals agreed with the [U.S. Tax Court](#) that this deduction smelled worse than burning plastic. Why was this an easy case? Because the Rolfs failed to prove the fair market value of the house exceeded the benefit they received by having the fire department burn it down!

I like to call this case Ted and Julia's Excellent Adventure in Tax Court. See [*Rolfs and Gallagher v. Commissioner*](#). Ted and Julia claimed a \$76,000 tax deduction for donating their lake house (but not the land under it) to the local fire department for training and demolition. That was its fair market value, they claimed. With more chutzpah than moxie,

they later increased their deduction to a whopping \$235,350, the claimed cost of rebuilding the house.

The IRS countered that all Ted and Julia wanted was to have the house knocked down. That meant no deduction at all, said the IRS. When Ted and Julia faced off with the IRS in Tax Court, the question was by how much the value of the lake house exceeded the demolition costs. Ted and Julia didn't have good evidence of the \$76,000 value.

Ted and Julia didn't want to give an inch and kept arguing demolition costs were irrelevant, even though the IRS estimated the cost of demolition at \$10,000 to \$12,000. The Tax Court ruled they failed to prove their lake house had any value beyond demolition cost. That meant no deduction! On Appeal, the Seventh Circuit agreed.

Most charitable contribution cases come down to good documentation, and that means rock solid appraisals. Plainly, Ted and Julia should have had a good appraisal. They also should have agreed—happily—to subtract \$12,000 for demolition.

If you still are feeling lucky, the classic fire department donation case is [*Scharf v. Commissioner*](#), where the Tax Court allowed a deduction. There, clearing the land was worth much less than training benefits to the fire department. But in [*Hendrix v. United States*](#), the court denied any deduction since appraisal requirements weren't met.

For more on house donations to fire departments, see:

[Charitable Deductions for Homes Demolished by Fire Department in Training Exercises](#)

[IRS Burns Kirk Herbstreit's Donation of Home to Fire Department](#)

[IRS Denies Deduction for Homes Donated to Fire Departments and Burned Down](#)

[Court Denies Charitable Deduction for Donation of Home to Fire Department](#)

[Oregon Gubernatorial Race Roiled by Candidate's Charitable Deduction for Donation of Home to Fire Department](#)

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