

Vehicle Donations



Background:

The IRS has targeted vehicle donations as a potential area of abuse. A General Accounting Office (GAO) study for the Senate Finance Committee in December 2003 found that 733,000 taxpayers donated vehicles to approximately 4300 charities, saving an estimated \$654 million in taxes. In two-thirds of the cases examined, the taxpayer deducted more than the charity actually received for the vehicle. Since what is received for anything is considered to be the “Fair Market Value,” or “FMV,” and FMV is required for all donations of merchandise, many taxpayers were deducting too much. As a result of this the following rules exist.

Vehicle donation rules:

Your deduction for donating a vehicle with a claimed value of over \$500 depends on what the charity does with it. One of the following scenarios will probably apply:

- If the charity sells the vehicle without any “significant intervening use” (significantly using it for the charity’s purpose) or “material improvement” (major repairs), your deduction is limited to the price the charity gets for the vehicle. The fair market value in this scenario is irrelevant, and no appraisal is needed, even if the vehicle is sold for more than \$5000, which is the dollar amount that normally requires an appraisal.
- If the charity uses the vehicle for its own purposes, or gives it away to poor people, or to further its cause, you must then determine its fair market value. FMV is the price a willing buyer would pay and a willing seller would accept; both parties having all information pertinent to establishing its value. Unlike the above scenario, if the vehicle is worth more than \$5000, a written appraisal by a qualified appraiser is required.
- If you are claiming a vehicle donation deduction of less than \$500, the sale of the vehicle by the charity does not have to be the determining factor for your deduction. Again, FMV is the criteria that must be used to determine the deduction.

Determining your vehicle deduction:

- To find the fair market value for your vehicle, visit www.kbb.com or www.nada.com. You should use the “private party value” to determine the deduction. It would be wise to get FMV evidence from at least 2 sources. To determine another value for your car, you can look at similar cars for sale on the internet at www.carsoup.com, or check out the cars for sale in the ads in your local newspaper.
- If the value of the vehicle is \$250 or more, the charity is required to give you a contemporaneous written acknowledgement. The statement must include the name of the charity, a description of your vehicle, and a statement that no goods were provided to you by the charity in return for the donation.
- If you donated a vehicle, and the value is over \$500, the charity is required to issue a Form 1098-C to you. This form will either state the price for which the vehicle was sold and the limits on the deduction, or will indicate that the vehicle was either improved and used or transferred to a needy individual. You will need to file Form 8283 with your Form 1040 including the information from Form 1098-C.