

## Should You Donate Your Car? |

By Liga Spoge and Janet Trewin, CMA, CPA

### ACCORDING TO THE INTERNAL REVENUE

Service, charities are soliciting vehicle donations from taxpayers at an increasing rate—something that is evident when counting the number of ads for vehicle donations in the newspapers. Revenue from donated vehicles is a welcome, often crucial, source of income for many charities as income from vehicle donations can make up anywhere from 1% to 98% of a charity's budget.

Taxpayers generally learn about vehicle donation programs through Internet, newspaper, or radio advertisements. The most commonly used enticement in the advertisements is tax deductibility, with the second being that the donation serves a charitable purpose. A third enticement is free towing/pickup. Interested donors answer the ads and reach either the charity itself or the fundraiser acting on the charity's behalf. Donors may not even know whether they are donating the vehicle directly to a charity or through a fundraiser, but how the donation is made—directly to the charity or through a fundraiser—and how it is treated after it is made can have an effect on how much the charity actually receives.

Often, a charity's proceeds from a car donation are far less than what a donor expects them to be. Charities frequently have an immediate need for cash. To accommodate this need, as well as to avoid high vehicle storage costs, charities often dispose of the cars at auctions—receiving far less than the fair market value (FMV) but liquidating the car in a much faster sale.

In addition, vehicle-processing costs can be significant and vary depending on how the charity's program is

managed. Processing costs may be less if the charity operates the program in-house, where they keep 100% of the net proceeds after deducting costs associated with processing the vehicles. Costs may be substantially higher, however, if the charity uses a third-party fundraiser that retains part of the net proceeds for its participation. The percentage of proceeds for charities using fundraisers may also vary by how processing costs are deducted by the fundraisers and by different agreements on splitting the net proceeds. Some charities receive a percentage of the net proceeds after the fundraiser's costs are deducted, while others receive the net proceeds less a flat fee for the fundraiser's expenses.

For a donor to claim a charitable contribution deduction for the donation, the vehicle must be donated to a qualified institution, which includes churches and most nonprofit charitable, educational, and medical organizations. Potential donors can refer to the IRS Publication 78, *Cumulative List of Organizations*, available to search online at the IRS website, [www.irs.gov](http://www.irs.gov). This is an annual cumulative list of most organizations that are qualified to receive tax-deductible contributions.

Taxpayers can deduct only the FMV of their vehicles. Many of the ads claim that donors can value their vehicles at full or maximum value. These claims may be misleading, however, because the vehicles must be valued at FMV, which takes into account such factors as condition and mileage. These claims seem to be particularly false when the vehicles are accepted "running or not." Taxpayers should refer to the IRS Publication 561,

### *Determining the Value of Donated Property.*

The ability to claim a tax deduction is one of the most important reasons that individuals donate vehicles to charity. In order to receive a deduction for the donation, the taxpayer must itemize. The majority of ads soliciting donations fail to mention this. As a result, many taxpayers are misled and are unable to take the deduction. Additionally, if the taxpayer's total noncash contributions are more than \$500 in a given tax year, he or she is required to file Form 8283, *Noncash Charitable Contributions*. If the charity disposes of donated property within two years of the contribution, the property's value is more than \$500, and the property has not been consumed or distributed for charitable purposes, the charity must file Form 8282, *Donee Information Return*, with the IRS within 125 days after the date of disposition. This form is used to evaluate whether the donor's tax deduction should be scrutinized further.

At the time the vehicle is picked up, the charity obtains the title from the donor. Some charities will provide the donor with state-required forms (e.g., release of liability) or references for establishing the tax-deductible value of their vehicle. After the donated vehicles are collected, they are generally sold at auctions or salvaged for parts, but they may be sold to auto dealers or to the general public. Some charities will refurbish the vehicles for their own program services or their clients.

In *Vehicle Donations: Taxpayer Considerations When Donating Vehicles to Charities* (GAO 03 608T), the General

Accounting Office (GAO) advises taxpayers to take the following steps before donating vehicles and claiming tax deductions:

- Verify that the recipient organization is a tax-exempt charity;
- Ask questions about the use of vehicle donation proceeds, e.g., whether the vehicle will be fixed and given to the needy or if it will be sold;
- Deduct only the vehicle's FMV;
- Follow state laws regarding title transfer for vehicles; e.g., ensure vehicle title transfer to the charity's name, keep a copy of title transfer, and remove license plates, if allowed by the state.

Vehicle donations enable many charities to operate successfully. To achieve the greatest benefit for their charitable causes, taxpayers must make informed decisions when donating their vehicles. Although the GAO has identified a situation of potential abuse, it has not recommended an executive action to the IRS. Consequently, at this point, taxpayers can still take a tax deduction for the FMV of donated property regardless of what share of the proceeds the charity receives from the vehicle or how the charity chooses to utilize the vehicle. ■

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