



News Release

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IRS Officials Urge Caution and Care for Those Making a Car Donation

IR-2003-139, Dec. 15, 2003

WASHINGTON — The Internal Revenue Service issued a consumer alert today to help taxpayers avoid potential pitfalls when they donate their automobiles to charities.

The IRS advises that taxpayers contemplating such donations should ask many questions and carefully consider just how much of the proceeds from the car will go to their intended charity.

A recent federal study indicates that in many instances such vehicle contributions may help the intended charities far less than taxpayers think.

"We encourage people to proceed carefully when donating vehicles," said IRS Commissioner Mark W. Everson. "Supporting charitable activities through tax deductible contributions is an important element of tax law and serves the national interest. But people should know that in some cases the donation is providing little value."

In one donation reviewed by the General Accounting Office (GAO), a taxpayer donated a 1983 truck valued at \$2,400, but after the fundraiser sold the vehicle at auction and deducted administrative and advertising costs, the charity received \$31.50.

A California study revealed that 80 percent of charities contracting with fundraisers to run their car donation program received less than 60 cents for every dollar value of vehicle donated.

Across the nation, an increasing number of charities have turned to car-donation programs in recent years as an effective way to raise money. And these programs, if well managed by the charity, can offer significant benefits for the exempt organization and the taxpayer.

In addition, IRS officials are concerned that, as the end of the tax year approaches and taxpayers finalize their charitable donations, many may not know enough about IRS recordkeeping and filing requirements.

Of 129 million individual returns filed for tax year 2000, the GAO estimates 733,000 returns had a tax deduction for a vehicle donation. These donations were valued at about \$2.5 billion, reducing taxpayer liability by an estimated \$654 million.

For a taxpayer, the appeal of a car donation is simple: Unload an old car, help a worthy cause and take advantage of tax provisions designed to support the generosity of Americans. Taxpayers who itemize deductions on their tax return can deduct no more than the fair market value of their contributions to qualified charities.

The proliferation of car donation programs, however, has taken place without taxpayers always understanding what they must do to take advantage of the deduction.

“A few simple steps can help avoid headaches for taxpayers,” Everson said.

IRS officials recommend that people who want to donate their vehicle take the following steps:

- **CHECK THAT THE ORGANIZATION IS QUALIFIED** –Taxpayers must make certain that they contribute their car to an eligible organization; otherwise, their donation will not be tax deductible. Taxpayers can use the IRS Web site to check that an organization is qualified by searching Publication 78 at www.irs.gov/bus_info/eo/eosearch.html. Publication 78 is an annual, cumulative list of most organizations that are qualified to receive deductible contributions. Publication 78 is also available in many public libraries. In addition, taxpayers can call IRS Tax Exempt/Government Entities Customer Service at 1-877-829-5500. Be sure to have the organization’s correct name and its headquarters location, if possible. Churches, synagogues, temples, mosques and governments are not required to apply for this exemption in order to be qualified. They frequently are not listed in Publication 78. Donations to these institutions are tax deductible.
- **SPEAK DIRECTLY TO THE CHARITY** – Many donors also want to make sure their contribution is used for the charitable purpose they intend. The IRS urges donors to ask whether those soliciting the car donation are officials of the charity itself or a private fundraiser acting on the charity's behalf. If it is a private fundraiser, what will it do with the vehicle? Will the car be fixed up and given to the poor and needy? Or will it be resold? And if it is resold, what share of the proceeds will go to the charity? A donor can ensure the donation furthers the intended charitable purpose by obtaining acceptable responses to these questions.
- **EXAMINE STATE FILINGS FOR MORE INFORMATION** - Taxpayers can also review the organization’s state registration and financial filings. These documents are commonly filed with a state charity regulator such as the State Attorney General’s Office or the Secretary of State’s Office. Donors can use these records to find out how long a charity has been in existence and to compare the percentage of revenue the charity spends on its charitable programs to the percentage it spends on administrative costs.
- **ITEMIZE IN ORDER TO BENEFIT** – Many taxpayers can’t take a deduction for car donations because they don’t itemize deductions on their personal tax return. For taxpayers, the decision to itemize is determined by whether their total itemized deductions are greater than the standard deduction (for 2003, the standard deduction will be \$4,750 for single; \$9,500 for married filing jointly). Just under one-third of the nearly 129 million individual taxpayers itemized in 2000, the last year for which complete data is available.

- **CALCULATE THE FAIR MARKET VALUE** – The donor must take many factors into consideration to establish the value of the car. Many used-car buying guides contain step-by-step instructions so that readers can make adjustments to the value of a car for accessories, mileage and other indicators of its general condition. Both IRS Publication 526, “Charitable Deductions,” and IRS Publication 561, “Determining the Value of Donated Property,” provide detailed instructions. Both publications can be found at *www.irs.gov*.
- **DEDUCT ONLY THE CAR’S FAIR MARKET VALUE** – Some car donation program operators have mistakenly claimed that donors can take the full “Blue Book” value of their car for a deduction. The IRS, however, will only allow a deduction for the fair market value of the car. Fair market value takes into account many factors, including the vehicle’s condition. The fair market value of the taxpayer’s car may be substantially different from the “Blue Book” value.
- **DOCUMENT THE CHARITABLE CONTRIBUTION DEDUCTION** – For vehicle donations, taxpayers must document the car donation and its fair market value. Recordkeeping requirements are comprehensive and vary depending on the amount of the contribution and the total amount of the charitable deduction. IRS Publication 526 details requirements for the types of receipts taxpayers must obtain and the forms they must file.
- **CONTACT STATE CHARITY AND IRS OFFICIALS WHEN IN DOUBT** - Donors with questions about whether a contribution is deductible should call the IRS at 1-800-829-1040 or for TTY/TDD help, call 1-800-829-4059. They can also find IRS forms and publications at the IRS Web site at *http://www.irs.gov/bus_info/eo/index.html*. Donors concerned that contributions are being solicited for fraudulent purposes should contact the appropriate state charity official, who is often located in the state attorney general's office. A list of state charity official offices can be found online at *www.nasconet.org*, and a list of state attorneys general can be found at *www.naag.org*.

In 2000, the last year for which complete data is available, about 37.5 million taxpayers made deductible charitable contributions totaling nearly \$140.7 billion. Of these gifts, nearly \$98.2 billion were cash donations.