



Client Alert

A West Rhode & Roberts Publication

Vehicle Donations – What You Should Know Before Claiming a Car Deduction

Although April 15th is still many months away there is time to get vehicle contribution deductions taken care of before the year-end. Everyone loves to deduct donations, because they decrease the tax bill and help support a charitable purpose. It's important that you know required procedures before making a donation so that you aren't faced with an audit. Currently the IRS is scrutinizing vehicle donations to charities. While the IRS encourages the taxpayers to make contributions deductions, they do not want contributors of property to overvalue what they are donating; overvaluation of donated property is considered cheating on the IRS's books.

According to the GAO, in 2000 733,000 people claimed deductions for donated vehicles, which lowered their income tax liability by \$654 million. The GAO also determined that some vehicle donors valued the cars at more than twenty times their actual value. The House and Senate have both passed bills that would prevent some these abuses. The Senate bill states that the final sales price of the car will be the deduction from the individual's tax return. The House bill on the other hand will require that the individual hire an appraiser to value the car. Both of these bills have been passed and a final bill is under way by the Senate Finance Committee. The final bill is expected to be completed within the next few weeks.


This new law, when passed, may bring some obstacles to both taxpayers and charities when claiming their deductions. Taxpayers will be required to support their donation thoroughly with either an appraisal of the vehicle or documentation that shows how much the car was sold for by the charity. The IRS wants the taxpayers to know that they cannot deduct anything greater than the fair market value of the car. If the value of the car is more than \$250 you must also get a written acknowledgement from the

charity, which must include the name of the charity, a statement of what was donated, and any services that the donor received in return for the donation. The donor must also file the form 8283 (Noncash Charitable Contributions) with their form 1040 if the deduction is greater than \$500. In addition if the value of the deduction is greater than \$5,000 a written appraisal must be provided. These obstacles may add some costs to the act of donating cars, but if you can claim a large supported deduction the cost may be well worth it.

Before donating a car, it is important to know the kinds of car donation programs that exist. In order for a car donation to be deductible it must be donated to a 501(c)(3) organization. Car donation programs are run in multiple ways. First, the charity uses the car in its operations or distributes the car to needy people. Second, the charity sells the car and uses the proceeds to fund its exempt purpose. Third, the charity hires an agent to operate the car donation program. In order for this program to be valid, the agency relationship must be valid under state laws, the agency must act on the non-profit's behalf and the program must be controlled by the non-profit organization. In a final program where a for-profit company uses the non-profit's name to sell the cars and the non-profit has no control or oversight of the operations, donations are not tax-deductible.

Non-profits fear that car donations program revenues will decline as a result of these new laws and increased enforcement. These changes are not made with the purpose of eliminating charitable donations, the IRS simply wants proper recording of the contribution by both the donor and the charity. These laws should only be small hurdles for the non-profit organizations to keep the donations running and if anything should help them develop a better way to track the value of contributions.

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