

Donation of Motor Vehicle to Charity

You might be wondering whether it is worthwhile to donate your old automobile to a charity and take a tax deduction, rather than apply it as a trade-in when you buy or lease your new car. A yes-or-no decision cannot be made without examining some of the particulars involved with your vehicle and with the IRS's approach to automobile donations.

Charitable contributions of noncash property pose special problems for the IRS, primarily because the amount of the deduction is generally the fair market value of the contributed property on the date of contribution. That value was subject to a considerable amount of embellishment and misinformation when it came to deducting the value of a vehicle donated to charity. To end the problem, Congress passed a new substantiation provision in the American Jobs Creation Act. The IRS has issued guidance that explains the new rules. It also frequently warns taxpayers that particular charities that purport to give donors larger deductions than other charities need to be examined carefully by the donor taxpayer. Even if the donor has been innocently duped, the IRS will not allow the deduction.

The substantiation rules separate the tax treatment based on whether the donee organization turns around and sells the donated vehicle, or uses the vehicle in support of its exempt purposes:

- If the donee organization retains the qualified vehicle for its usage: the charity must provide a certification stating the intended use of the vehicle or any material improvement intended for the vehicle, and the intended duration of such use; and a certification that the vehicle will not be transferred in exchange for money, property or services prior to completion of the intended use or improvement.
- If the donee organization sells the qualified vehicle without any significant intervening use or material improvement: the maximum deduction the taxpayer will be allowed is equal to the gross proceeds received by the donee organization from the sale of that qualified vehicle. This situation will be the more common result of a donation and generally will confine the amount of the donation to wholesale price or even lower, depending on its condition.

If you think your vehicle is worth more than average because of condition, it might make sense under the new rules to sell it back to a dealer or through a classified ad and contribute the cash proceeds to charity. Or, if your vehicle is in good shape, you may look for a charity that would promise to use it in its work, thereby enabling you to deduct its full fair market value.

For further information, please do not hesitate to contact our office.