



How Much Can You Deduct for Donating That Old Car?

By David M. Fogel, CPA, CFP

Across the country, an increasing number of charities have turned to car donation programs in recent years as an effective way to raise money. The IRS is starting to take a hard look at the deductions claimed because they are concerned that taxpayers may be overvaluing their car donations. Tax practitioners need to ensure that their clients claim the proper amounts for such donations and that they have the substantiation to back up the deductions. It is very important to document the condition of the car at the time of the donation, and to obtain an appraisal if the deduction is more than \$5,000.

Background

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

According to a recent General Accounting Office report, an estimated 4,300 charities have vehicle donation programs¹. The GAO stated that about 733,000 of the 4.4 million tax returns for the year 2000 that were filed with noncash contributions of more than \$500 claimed deductions for donated vehicles, lowering taxpayer liability by an estimated \$654 million. The average deduction claimed was more than \$3,400.

The GAO also examined 54 specific vehicle donations, and found that in two-thirds of these, charities ultimately received 5 percent or less of the value that donors had claimed as deductions on their tax returns. The charities sold the vehicles at auctions at wholesale prices and incurred vehicle processing fees and fundraising costs. In one donation reviewed by the 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 only \$31.50.

In response to this issue, the IRS has issued a consumer alert to help taxpayers with decisions concerning contributions of automobiles to charities². In general, the IRS recommends that before donating a vehicle, many questions should be asked about the charity including the amount of proceeds the charity will ultimately receive. The IRS also cautioned that taxpayers should properly determine the fair market value of the vehicle by taking into account many factors, including the vehicle's condition.

How Much Can You Deduct?

Many of the charities that have turned to car donation programs freely advertise that you can deduct "full blue book value" for the donation. This is misleading because it infers that

regardless of the car's condition, a taxpayer can deduct the maximum amount shown in the "blue book."

The amount a taxpayer can deduct for a charitable contribution of property is the fair market value of the property at the time of the donation³. The fair market value is the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of the relevant facts⁴.

The IRS has ruled that there is no single correct way to determine the fair market value of a car, and that any reasonable method may be used⁵. The IRS said that a taxpayer may use an established used car pricing guide — like the *Kelley Blue Book* (www.kbb.com) or the National Automobile Dealers Association *Official Used Car Guide* (www.nada.com) — but only if the guide lists the sales price for a car that is the same make, model and year, sold in the same area, and in the same condition as the donated car.

In consulting such guides, there are several factors to consider, including the condition of the vehicle (excellent, good, fair, poor), the market in which it is to be valued (retail sale, private party sale, trade-in), the mileage, equipment (automatic transmission, air conditioning, etc.) and the geographic area. By incorrectly choosing one of these factors, the value obtained can be considerably different.

Consider the value in Sacramento, California of a 1990 Toyota Camry LE 4-door sedan in December 2003, with 120,000 miles, with a V6 engine and common equipment. Here are the values shown in the *Kelley Blue Book*:

	Excellent	Good	Fair	Poor
Retail Sale by Dealer	\$4,480	N/A	N/A	N/A
Private Party Sale	\$3,375	\$2,985	\$2,520	\$0
Trade-In	\$2,325	\$1,995	\$1,440	\$0

As you can see, the value can vary considerably, from \$4,480 to no value at all. One commentator has suggested using either the "Retail Sale by Dealer" or "Private Party Sale" values, adjusted downward because they are "quote" prices, not transactional prices, and thus, are usually overstated⁶. However, it would be improper for a taxpayer who is not a car dealer to use the "Retail Sale by Dealer" values. The "Private Party Sale" values are the most realistic because they represent the amount that a taxpayer would be able to get by selling the car to a private party.

Court Cases

There have been very few court cases involving donations of vehicles. In general, the cases demonstrate that being

able to prove the condition of the vehicle at the time of the donation is of paramount importance.

In *Munson v. Commissioner*⁷, the taxpayer donated a 1962 Buick to a qualified organization and claimed a \$450 deduction on his 1974 return. The Buick was in need of repairs, and the cost of repairs exceeded the value of the car. The taxpayer's accountant arrived at the \$450 deduction by using one-third of the value of the car two years earlier. The taxpayer also presented a classified advertisement offering to sell a 1962 Buick in A-1 condition for \$250, but it was not known how the condition of the car advertised compared to the taxpayer's car. The Tax Court declined to assign any value, and disallowed the deduction.

In *Mills v. Commissioner*⁸, the taxpayer donated a 1966 Chevrolet Corvair to Goodwill and claimed a \$3,103 deduction on his 1983 return. The taxpayer presented no evidence regarding the condition of the Corvair. In order to substantiate his deduction, he presented a 1983 issue of *Hemmings Motor News*, showing automobiles of similar make, year and model, in various states of restoration, with prices ranging from \$400 to \$5,000. Not knowing how the condition of the taxpayer's car compared to these, the Tax Court allowed a deduction of \$1,500.

In *Jorgenson v. Commissioner*⁹, the taxpayers donated a 1989 Chevrolet Suburban to a church and claimed a \$14,850 deduction on their 1994 return. For this donation, the taxpayers did not include with their return Form 8283 ("Noncash Charitable Contributions"), and they failed to obtain an appraisal. As a result, the Tax Court disallowed the deduction.

Examples

The following examples will help illustrate the principles discussed in this article.

Example 1. Suppose that in December 2003, your client donated the 1990 Toyota Camry described above to a charity. The car was generally in good condition, but was in need of some engine work that would have cost \$500. The *Kelley Blue Book* lists the private-party sale value of the car at \$2,985. It would be reasonable to claim a deduction of \$2,485 (the \$2,985 value less \$500 for the cost of repairs).

Example 2. Suppose that after considering the year, make, model, condition, and area, and after consulting the *Kelley Blue Book* and adjusting for the cost of repairs, you determine that the value of an automobile is \$6,500. You cannot simply deduct this value on the return. Since the deduction will be more than \$5,000, among other requirements, your client is required to obtain an appraisal, have the appropriate portion of Form 8283 signed by the appraiser, and attach both to the tax return¹⁰.

Example 3. Your clients tell you at "tax time" that they donated a car to a charity last year, and all that they have is the receipt from the charity describing the year, make and model of the car. After questioning them extensively about the car's mileage and

condition and consulting the NADA *Official Used Car Guide*, you arrive at what you believe is a reasonable amount for the deduction. You should document your conversation and encourage your clients to obtain the following items to substantiate their deduction:

- Photographs of the car near the time of the donation showing its condition;
- Evidence of the car's equipment (e.g., automatic transmission, air conditioning, etc., should be shown on the original purchase invoice);
- Evidence of the number of miles driven on the car (should be shown on the Certificate of Title filed with DMV for the transfer to the charity);
- A letter from the mechanic who last worked on the car describing its appearance, body condition and mechanical condition; and
- If the value claimed is more than \$5,000, an appraisal from a qualified vehicle appraiser and a properly completed Form 8283 is required.

Conclusion

Due to the increase in the number of car donations, the IRS will likely be stepping up its audit activity in this area. You can assist your clients with their charitable deductions by making sure that they have deducted the proper amount on the return, and that they have retained the substantiation necessary to back up the deduction.

David M. Fogel, EA, CPA, is a non-attorney tax advisor for the Sacramento law firm of McDonough Holland & Allen PC. He assists in resolving clients' tax disputes (including analyzing issues and arguing cases before the various tax agencies) and providing tax research support for transactional planning. David spent more than 26 years working for the IRS — 8 years as a Tax Auditor and Revenue Agent, and 18 years as an Appeals Officer. He became an Enrolled Agent in 2001, and was licensed in 2002 as a CPA in California. David is also admitted to practice before the United States Tax Court, having passed the Court's examination for non-attorneys. He can be reached at dfogel@mhalaw.com.

¹ GAO Report No. GAO-04-73 (November 14, 2003).

² IRS News Release IR-2003-139 (December 15, 2003).

³ Treas. Reg. sec. 1.170A-1(c)(1); *Goldman v. Commissioner*, 46 T.C. 136, 137 (1966), aff'd. 68-1 USTC ¶9126, 388 F.2d 476 (6th Cir. 1967).

⁴ Treas. Reg. sec. 1.170A-1(c)(2).

⁵ Revenue Ruling 2002-67, 2002-47 I.R.B. 873.

⁶ Burgess J.W. Raby, Esq. and William L. Raby, CPA, "When Charity Begins at Home," 2003 *Tax Notes Today* 249-23 (Dec. 29, 2003).

⁷ *Munson v. Commissioner*, T.C. Memo. 1980-52.

⁸ *Mills v. Commissioner*, T.C. Memo. 1991-592.

⁹ *Jorgenson v. Commissioner*, T.C. Memo. 2000-38.

¹⁰ Treas. Regs. §1.170A-13(c)(2).