

Overview: New rules on car donations limit your deduction to the actual amount that the charity receives for the vehicle unless 1) The charity makes significant improvements to the vehicle, 2) transfers the vehicle at no cost or less than FMV. If one of these exceptions applies, FMV of the donation can be used. Proper documentation is required.

NEWS-FEDERAL, 2005TAXDAY, (June 06, 2005), Item #I.4, Interim Guidance on Charitable Contributions of Vehicles Provided (TDNR JS-2484; Notice 2005-44)

Interim Guidance on Charitable Contributions of Vehicles Provided (TDNR JS-2484; Notice 2005-44)

The IRS has issued interim guidance on the deductibility and substantiation requirements relating to charitable contributions of qualifying vehicles. Generally, the deduction for donated vehicles is limited, with certain exceptions, to the actual sale price of the vehicle when it is sold by the charity. This guidance adds another exception to this rule, allowing the donor to claim a fair market value (FMV) deduction in cases where the charity either gives or sells the vehicle at a low price to a needy individual, provided this transfer furthers the charity's purpose of helping a poor person in need of a means of transportation. Furthermore, guidance is provided with respect to determining FMV and the timelines for substantiation of such a charitable contribution.

Substantiation Requirements

No charitable deduction is allowed under [Code Sec. 170\(a\)](#) for the contribution of a qualified vehicle with a claimed value in excess of \$500 unless the donor substantiates the contribution by a contemporaneous written acknowledgment. Such an acknowledgment is the responsibility of the donee charity. Providing a false or fraudulent acknowledgment or knowing failure to provide an acknowledgment opens the donee organization to penalties under [Code Sec. 6720](#).

An acknowledgment must contain the name and taxpayer identification number of the donor, the vehicle identification number, and the date of contribution. To be contemporaneous, the acknowledgment must be obtained within 30 days of either (1) the contribution, or (2) the disposition of the vehicle by the donee organization. The donor must include a copy of the acknowledgment with the tax return on which the deduction is claimed. The additional required contents of the acknowledgment depend on whether the donee organization (1) sells the qualified vehicle without any significant intervening use or material improvement, (2) intends to make significant intervening usage of or material improvement to the vehicle prior to selling it, or (3) intends to either gratuitously transfer or sell the vehicle at a price significantly below FMV to a needy individual in direct furtherance of the organization's charitable purpose of relieving the poor, distressed or underprivileged who are in need of transportation.

For a qualified vehicle that is sold by the donee organization without significant intervening use or material improvement, the acknowledgment must include the date the vehicle was sold by the organization, the gross proceeds from the sale, certification that the vehicle was sold in an arm's length transaction between unrelated parties, and a statement to the donor that the deductible amount is limited to the gross proceeds from that sale.

For a qualified vehicle for which the donee organization intends a significant intervening use or material improvement, the acknowledgment must include (1) a certification and detailed description of either the significant intervening use and the intended duration of such usage or the intended material improvement, and (2) certification that the vehicle will not be sold prior to completion of such usage or improvement.

For a qualified vehicle that the donee organization intends to sell to a needy individual at significantly below FMV (or gratuitously transferred to such a person), the acknowledgment must include a certification that the donee organization will make such a transfer of the vehicle and that the sale or transfer will be in

direct furtherance of the donee organization's charitable purpose of relieving the poor and distressed or the underprivileged who are in need of a means of transportation.

Claiming a Deduction at Fair Market Value

If the claimed value of a donated qualified vehicle exceeds \$500, the charitable deduction may be limited under [Code Sec. 170\(f\)\(12\)](#), depending on how the donee organization uses the vehicle. If the vehicle is sold by the donee organization without significant intervening use or material improvement, the deduction claimed by the donor is limited to the gross proceeds from the organization's sale of that vehicle. However, if the donee organization does make significant use of and/or material improvement to the vehicle, this gross proceeds limitation does not apply. Instead, the donor must substantiate the fair market value of the vehicle.

To constitute significant intervening use, the donee organization must actually use the vehicle in furtherance of the organization's regularly conducted activities, and the usage must be significant. Whether the usage is significant is determined depending on the nature, frequency, extent and duration of that usage.

A material improvement is a major repair or upgrade that improves the condition of the qualified vehicle such that the vehicle significantly increases in value. Material improvements do not include finish work (such as paint, rustproofing or wax), dent or scratch removal, installation of theft deterrent devices, or the cleaning or repair of upholstery. In addition, major repairs will not be considered to be material improvements if they are funded by additional payments to the donee organization by the donor of the qualified vehicle.

If the qualified vehicle is either given to a needy individual or sold to such a person at a price significantly below FMV in direct furtherance of the organization's purpose to relieve the poor, distressed or underprivileged who are in need of a means of transportation, the gross proceeds limitation also does not apply. Again, the donor must instead substantiate the fair market value of the vehicle.

Determining Fair Market Value

For purposes of [Code Sec. 170](#), FMV may be determined by reference to an established used vehicle pricing guide. However, the dealer retail value listed for a particular vehicle in such a guide is not an acceptable measure of the FMV of a similar vehicle. For contributions made after June 5, 2005, the acceptable measure of the FMV of a vehicle is limited to amounts not in excess of the price listed in a used vehicle pricing guide for private party sales of similar vehicles. If the deduction is not limited to the gross proceeds from the sale of the vehicle, the donor is required to provide a qualified appraisal as substantiation for any deductions in excess of \$5,000.