

CARS FOR CHARITY

A GUIDE TO VEHICLE DONATIONS

INTRODUCTION

The Attorney General's Office has prepared this *Guide to Vehicle Donations* to provide Minnesota citizens with information about how vehicle donation programs work.

In addition to the familiar toy drives, red kettles and mailbox pleas, more and more charities are turning to automobile donations as a source of revenue. This presents consumers with the chance to give a valuable donation and avoid the hassle of selling an older vehicle to a private party. Vehicle donations are proving to be highly popular. The Attorney General's Office and the Department of Public Safety have experienced increases in the number of citizens calling for guidance on such donations. And, the number of vehicles donated annually continues to rise.

There are a number of issues, however, that you should keep in mind if you are thinking about donating a vehicle to charity, including the tax status of the charity, the status of the vehicle's title, and the amount you are able to deduct for your donation.

IDENTIFYING CHARITIES

If one of your reasons for donating your vehicle to a charity is to receive a tax deduction, it is very important that you select a charity that is eligible to receive tax-deductible contributions. Federal law allows donors to claim a tax deduction for a gift "to or for the use of" a qualified nonprofit tax-exempt organization. A qualified organization is an organization that is eligible to receive tax-deductible contributions and that is organized and operated for, among other things, religious, charitable, educational, scientific, or literary purposes.

There are several ways you can verify that a charity is eligible to receive tax-deductible contributions. The Charities Division of the Attorney General's Office maintains a database that includes all the nonprofit organizations required to register with this Office. You may access that database by visiting the Attorney General's website at www.ag.state.mn.us and clicking on "Charities." Please keep in mind that registration with the Charities Division does not mean that the State has approved the organization. Rather, it simply means that the organization has filed all the necessary financial information to become registered. If the charity is registered with this Office, its file will indicate under which section of the Internal Revenue Code the organization is recognized as tax-exempt. (Those charities whose income is tax-exempt under section 501(c)(3) and veterans groups tax-exempt under section 501(c)(4) and 501(c)(19) are generally eligible to receive tax-deductible contributions.) Please note that some tax-exempt organizations are not required to register with the Attorney General's Office and therefore may not be found in the Charities database. For example, churches will not have information on file with the Attorney General.

**WHAT HAPPENS
TO
THE VEHICLE?**

**TAX
DEDUCTIONS**

You may also verify an organization's tax-exempt status with the IRS. The IRS publishes a document called IRS Publication 78, which is an annual list of most charities. IRS Publication 78 is available online at www.irs.gov/eo or at most libraries. Again, not all charities are listed in IRS Publication 78, such as churches, synagogues, temples, and mosques, which are not required to apply for exemption with the IRS.

Finally, you may verify an organization's status by calling the IRS Customer Account Services division for Tax Exempt and Government Entities at (877) 829-5500.

Please note that some advertisements for vehicle donations indicate that the organization is "IRS-recognized" or registered with the Attorney General, implying that government agencies have approved the charity. Minnesota law prohibits a charity from implying directly or indirectly that its registered status means that it is endorsed by the state.

Another factor to consider when donating your vehicle is how the charity will use your donated vehicle. How a charity uses the vehicle you donate has a direct impact on how your tax deduction is calculated. Donated vehicles are generally sold to other dealers or directly to the public, repaired, salvaged for parts, or junked. Charities will often maximize the value of the donated property by selling it at auction. Donated vehicles themselves can also directly support a charity's programs. For example, a charity that sells vehicles to disadvantaged people at a discount or a nonprofit that teaches automotive repair as a part of its nonprofit mission are using the donated vehicle as part of its charitable program. What the charity does with your vehicle affects the amount you can deduct (see below), so it is worthwhile to check with the charity before you donate your vehicle to find out how it will be used.

In 2005, the IRS amended the rules relating to tax deductions for vehicle donations. Under the old rule, donors were allowed to deduct the fair market value of the vehicle regardless of the value received by the charity from the vehicle. For example, under the old rule, if you donated a vehicle worth \$1000 and the charity only received \$600 for your vehicle, you would still be able to deduct \$1000, the vehicle's fair market value. As a result, prior to 2005, how the charity used your vehicle did not affect your tax deduction. But now, with the new IRS rules, what a charity does with your vehicle affects how much you may deduct.

Charity Sells the Vehicle. Under the new rules, if the claimed value of a donated vehicle is more than \$500, your deduction is limited to the amount the charity receives for selling the vehicle. For example, if your donated vehicle is worth \$1000 and a charity sells it for \$600, your deduction is limited to \$600. If the charity sells your vehicle for less than \$500, however, you are allowed to deduct up to the \$500 amount.

Keep in mind, however, that you may never deduct more than the fair market value of your vehicle even if that number is less than \$500.

This rule does not apply if the charity sells a donated vehicle to a needy person in direct furtherance of the charity's purpose. For example, if the charity's purpose is to provide transportation to the poor, then you may deduct the fair market value of the vehicle even if the vehicle was sold to a needy individual for less than its value.

Significant Intervening Use. If you donate your vehicle to a charity that uses it to further its regular charitable activities, you are entitled to deduct the fair market value of the vehicle. Organizations that deliver meals to the needy or provide automotive repair classes often use donated vehicles in furtherance of their regular activities. Keep in mind that the charity's use must be *significant*. IRS examples of significant use by a charity include using the vehicle every day for a year or for 10,000 miles during a one-year period.

Material Improvement. You are also entitled to deduct the fair market value of your vehicle if the charity intends to make a material improvement to the vehicle before selling it. According to the IRS, a material improvement is one that significantly improves the value of the vehicle, such as a major repair. Painting, cleaning, and repairing dents or scratches do not qualify as material improvements.

Determining Fair Market Value. If you are entitled to deduct the fair market value of your vehicle, it is essential to correctly establish that price. The obligation for establishing fair market value rests with the donor. Dealer guides or "Blue Books" summarize average prices for various model years and provide estimates for adjusting prices for condition, mileage and other factors. Industry price guides provide a starting point for assessing fair market value. The IRS guidelines insist, however, that donors use the private party value and not the dealer retail value listed in pricing guides to help determine fair market value. Note: if the value of your vehicle is more than \$5,000, you must obtain a qualified written appraisal of the automobile and attach an appraisal summary (IRS form 8283, section B) to your tax return.

Paperwork. In order to claim a deduction for a donated vehicle, you must have the correct paperwork documenting your donation. No matter what the charity does with your donated vehicle, it is required to provide you with written acknowledgment of your contribution. If the charity sells your vehicle without significant intervening use or material improvement, it must give you a written acknowledgment of the donation and sales price within 30 days of the sale of your vehicle. If the charity uses or improves your vehicle, or sells it at a discounted price to a needy individual, it must provide you with an explanatory written acknowledgment within 30 days of your donation. In order to claim a deduction, you must attach a copy of this acknowledgment to your income tax return, Form 1040.

TITLE TRANSFERS

Another important area of inquiry for vehicle donors is how the transfer of title of the donated vehicle is handled. If title is not properly transferred, state records will still reflect you as the owner, and you may potentially be responsible for anything that happens with the vehicle while titled in your name. State offices have received complaints from citizens who had been notified of traffic violations committed by the subsequent owners of their donated vehicles. Potentially more serious is the situation in which a donated vehicle is involved in an accident resulting in property damage or personal injury.

Some charities immediately transfer the title of the vehicle into their name, alleviating any liability risk. Others may process the donated vehicle through licensed used car dealers who are authorized by law to hold the title for up to six months. If you are considering donating a vehicle to charity, you should find out specifically how the charity will handle the title transfer. Once the vehicle has been donated, you may also wish to follow-up with your local Department of Public Safety, Driver and Motor Vehicle Services office to confirm that title has actually been transferred.

VEHICLE DONATION TIPS

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- Think about the organizations you know and the causes you care about. Check with your place of worship, your favorite charity or school and see if it will accept your vehicle.
 - Before you decide to donate your vehicle, check out the charity by visiting the Attorney General's website at www.ag.state.mn.us and click on "Charities." The website will indicate under which section of the Internal Revenue Code the organization is recognized as tax-exempt. Please note that some tax-exempt organizations are exempt from registering with the Attorney General's Office and therefore may not be found in the Charities database. You may also verify an organization's status with the IRS by referring to IRS Publication 78 or call the IRS's Customer Account Services division for Tax Exempt and Government Entities at (877) 829-5500.
 - For organizations not registered with the Attorney General's Office or listed with the IRS Publication 78, ask for evidence of tax-exempt status. Churches and other religious organizations will not have financial or other information on file with the Attorney General.
 - After you choose a charity, find out if you are dealing with the charity directly or its agent. This may be difficult if you are calling an "800" number or communicating via a website. Find out if a licensed Minnesota dealer will be accepting or handling your donation and how title will be transferred.

**SOURCES FOR
ADDITIONAL
INFORMATION**

- Find out what the charity plans to do with the vehicle. Will it use the vehicle for the charitable programs or sell it? If it is selling the vehicle at auction, ask about the average net return to the charity and what the dealer is being paid.
- Be sure to obtain written acknowledgment from the charity documenting the vehicle's sale price. If the charity intends to use the vehicle for its charitable purposes or make material improvements to the vehicle, be sure to get an acknowledgment to that effect as well. If you are claiming a deduction of \$500 or more, this acknowledgment must be attached to your tax return.
- Ask about procedures for transferring the title of the vehicle. Some charities immediately transfer the title to their name. This establishes beyond doubt that the charity actually received the contribution and eliminates the donor's liability. Others use dealers who can hold the title for up to six months without recording the transfer on state vehicle records. Transferring titles by mail often means a several week delay in recording the title. If the new owner gets a ticket, you may hear about it.
- After the vehicle has been donated, follow up with your local Minnesota Department of Public Safety, Driver and Motor Vehicle Services office to verify that a change in title has been recorded.
- If you anticipate claiming a deduction of \$5,000 or more, you must obtain a qualified written appraisal and complete Section B of IRS Form 8283. This must be attached to your tax return.

More information on donating a vehicle to charity can be obtained from IRS publication 4303: "A Donor's Guide to Car Donations." Information on determining the value of donated property and for claiming tax-deductible contributions may be obtained from IRS Publication 561: "Determining the Value of Donated Property" and IRS Publication 526: "Charitable Contributions." These publications are available by calling 1-800-829-1040 or by visiting the IRS website at www.irs.gov.

Questions about state title requirements may be directed to the Department of Public Safety, Driver and Motor Vehicle Services by calling (651) 296-6911.

You may contact the Minnesota Attorney General's Office via the Internet at www.ag.state.mn.us to access financial information of registered charities. You may also call the Attorney General's consumer assistance telephone number at 1-800-657-3787 or (651) 296-3353 with any questions.