

Donating the “George” in the Driveway

Giving a Used Car to Charity

Lets Talk Tax

By: Brett Hersh, EA, MBA

The sagging economy has many reconsidering their charitable giving – just when it is needed most. Tough times, however, do not mean you must forego the charitable season. If you’re tired of paying insurance and maintenance on a seldom-used vehicle, consider donating it to charity. It’s a great way to serve your community, cut expenses and, as a bonus, reduce your tax bill.

For example, consider my 1987 Dodge Ram 50, 4WD – let’s call him “George” (not the title “Community Eye Sore” my wife has bestowed). George runs great but doesn’t get out much. He spends most of the year sitting quietly in the driveway. In warmer months, birds perch on his raised wipers and bees nest in his rusted quarter panels as George dutifully awaits the occasional trip to the hardware store or the first flakes of snow.

Unfortunately, insurance and maintenance make the cost of keeping George to upwards of \$1,000 per year. By donating George to charity I’d remove this annual expense and net several hundred dollars in tax savings.



George – 1987 Dodge Ram 50

Admittedly, however, George’s age and condition may not make him a great candidate for a donation (Don’t worry George, you’re not going anywhere!). But, if you have a seldom-used vehicle that is a bit newer, your generosity may save thousands in taxes. For example, consider the donation of a vehicle worth \$8,000. The charity receives a reliable vehicle to use, sell, or transfer to a needy individual. You’ll receive the “warm glow”

of giving and save approximately \$2,000 in federal tax (assuming you itemize deductions and are in the 25% marginal tax rate).

Care should be taken when claiming a deduction for a donated vehicle (including boats and airplanes). Prior to 2005, taxpayers could simply claim the vehicle's fair market value (FMV) obtained from a reference guide such as Kelley Blue Book. Since 2005 the rules have become more strict and complex. The deduction amount allowed (if over \$500) depends on how the organization uses the vehicle. The charity reports this use to both donor and the IRS via Form 1098-C, Contributions of Motor Vehicles, Boats and Airplanes.

Here's a quick rundown of the deduction allowed based on the charity's use of the vehicle:

Outright sale by charity: If the vehicle is sold by the charity to a disinterested third party, the deduction is limited to the proceeds from the sale. The charity reports this amount on Box 4c of Form 1098-C.

Improvements prior to sale: If the charity makes significant improvements to the vehicle (repairs that substantially increase the vehicle's value), the donor will be able to deduct the vehicle's FMV as of the date the contribution was made. The charity notifies the donor and IRS of these improvements by checking Box 5A and describing the improvements in Box 5C on Form 1098-C.

Sale or transfer to needy individual: If the charity sells or gives the vehicle to a needy individual the donor will be able to deduct the vehicle's FMV as of the date the contribution was made. This is true even if the charity sells the vehicle for less than its FMV. The charity notifies the donor and IRS of these improvements by checking Box 5B on Form 1098-C.

Significant use by charity: If the charity retains the vehicle for use in its charitable purpose, the donor can deduct the vehicle's FMV as of the date the contribution was made. The charity notifies the donor and IRS by checking Box 5A and describing the vehicle's use in Box 5C on Form 1098-C.

These reporting requirements apply when the vehicle's "claimed" FMV exceeds \$500. If Form 1098-C is not received, the donor cannot deduct more than \$500 for the vehicle. If the donor is allowed to deduct the vehicle's FMV they must be able to substantiate the deduction claimed. They are not automatically entitled to deduct the highest value listed in any valuation guide unless they have evidence to prove the vehicle's condition warrants this value.

This article shares information on deducting donated vehicles (including boats and airplanes) to charity. There remain, however, many limits and requirements not included in this article. As always, please remember that this or any article does not constitute or replace the advice of a qualified professional. If you have any questions regarding your charitable giving or any other tax issue, please feel free to call our office at (304) 267-2594 to speak with a tax professional.

Brett Hersh is the owner of HBS TAX and an Enrolled Agent with the IRS. Brett is licensed to prepare all tax returns and represent taxpayers before the IRS. He is also a trainer for Lorman Education and Dave Ramsey's endorsed provider for accounting and tax services for the region. He can be reached at (304) 267-2594 or through www.hbsbusiness.com