

GAO

Report to the Chairman, Subcommittee
on Select Revenue Measures,
Committee on Ways and Means, House
of Representatives

February 2008

VEHICLE DONATIONS

Selected Charities Reported Mixed Experiences after Changes in Vehicle Donation Rules





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Highlights of [GAO-08-367](#), a report to the Chairman, Subcommittee on Select Revenue Measures, Committee on Ways and Means, House of Representatives

Why GAO Did This Study

In 2003, GAO found that many taxpayers' estimates of the value of their vehicles, claimed as tax deductions, were in excess of the charities' subsequent sales of the vehicles. Subsequently, effective January 1, 2005, the rules related to the amount taxpayers can claim as a deduction on their tax returns for vehicles donated to charities changed. Under the new rules, in many cases the amount taxpayers are allowed to claim as a deduction is less than they could have claimed before the changes. Some charities that used vehicle donations as a revenue source said that the changes could lead to fewer donated vehicles and reduced revenues. GAO was asked to determine how charities have been affected by the 2005 changes. GAO discussed the rule changes with Internal Revenue Service (IRS) officials and the impact of the changes with representatives of several charities. GAO judgmentally selected 10 charities from among the 65 contacted in the course of the 2003 GAO study. The experiences of these charities cannot be generalized to all charities because the selected charities were not drawn from a statistical sample of all charities with vehicle donation programs.

What GAO Recommends

GAO is not making any recommendations in this report. The Acting Commissioner of Internal Revenue was provided a draft of this report for her review and comment. IRS provided technical comments which were incorporated as appropriate.

To view the full product, including the scope and methodology, click on [GAO-08-367](#). For more information, contact Michael Brostek at (202) 512-9110 or brostekm@gao.gov.

What GAO Found

The selected charities GAO contacted reported mixed experiences after the rules for claiming a tax deduction for donating a vehicle were changed. Prior to the law change, taxpayers could claim estimated fair market value for any donated vehicle. However, beginning January 1, 2005, taxpayers are generally limited to deducting only the sales price of the vehicle when a donated vehicle is sold by the charity. The 10 charities GAO contacted reported varied experiences in the number of, quality of, and revenue from donated vehicles; some changes in their business operations; and mixed experiences with administering the changes in the rules. Of these 10 charities, when comparing 2003 to 2006, 6 reported decreases in the number of vehicles donated and some of these decreases were substantial. Also, 3 charities reported an increase, and 1 did not provide data. Three reported an increase in quality, 3 a decrease, and 4 no change. Six reported a decrease in vehicle donation revenue from 2003 to 2006, 3 an increase, and 1 did not provide data. GAO did not find a consistent pattern when comparing the number of donated vehicles with the revenue from the vehicle donation program or a charity's overall revenue. In response to the rule changes, some charities changed their fundraising activities and some decreased services, such as reducing the hours for providing services. Examples of business operations changes include using minimum bids at auctions, selling vehicles online, and selling vehicles directly to the public instead of through wholesalers. Finally, all 10 reported increased administrative burden due to increased reporting requirements, but they were able to accommodate the increase in paperwork.

Changes in Amount Donors Can Deduct for a Charitable Contribution of a Vehicle			
Before changes in rules (any vehicle)	After changes in rules (vehicles donated January 1, 2005, or later)		
Fair market value	Claimed value of vehicle is \$500 or less	Claimed value of vehicle exceeds \$500	
	Lesser of fair market value or \$500	Fair market value if the charity intends to (a) make significant intervening use of vehicle, (b) make material improvement to vehicle, or (c) give or sell the vehicle to a needy individual in direct furtherance of the charity's charitable purpose	Gross proceeds of the sale if charity does not intend to do (a), (b), or (c)

Source: GAO.

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United States Government Accountability Office
Washington, DC 20548

February 15, 2008

The Honorable Richard E. Neal
Chairman
Subcommittee on Select Revenue Measures
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

Vehicle donation programs are important sources of income for some charities, with many of these charities selling the donated vehicles and using the proceeds for their charitable purposes. In 2003, we found that many taxpayers' estimates of the value of their vehicles, claimed as tax deductions, were far in excess of the proceeds of charities' subsequent sales of the vehicles.¹ Subsequently, Congress changed the rules so that beginning in 2005, deductions for vehicles donated and then sold by the charities were to be limited to the gross sales price of the vehicle with some exceptions.² Some charities were concerned that this would lead to fewer vehicle donations and less revenue for the charities to use in pursuit of their missions.

Because of your interest in the effect of the vehicle donation rule changes, you asked us to determine how charities have been affected by the 2005 changes to the amounts donors can claim on their tax returns for donated vehicles. In addition, as you requested, appendixes I and II include information about the steps the Internal Revenue Service (IRS) took to implement these changes and to ensure charity and donor compliance.

To determine how charities have been affected by the 2005 changes, we reviewed the new vehicle donation rules that became effective January 1, 2005, and compared them to the previous vehicle donation rules. In addition, we attempted to contact the 65 charities we interviewed for our November 2003 report about the vehicle donation process. We reached 58 of these charities and determined which of them still operated vehicle donation programs as of August 2007, if they used contractors to operate

¹GAO, *Vehicle Donations: Benefits to Charities and Donors, but Limited Program Oversight*, GAO-04-73 (Washington, D.C.: Nov. 14, 2003).

²Prior to this, the taxpayer could claim the fair market value of the donated vehicle.

the programs, and approximately how many donated vehicles they received in 2006 or 2007.³ We selected 10 of these charities that still operated programs and 1 that no longer operated a program and conducted in-depth interviews with charity officials to obtain their views about how they were affected by the changes in the amounts donors could claim on their tax returns. To ensure that we obtained the views of officials who operated a wide variety of vehicle donation programs, we selected, based on the results of our initial screening contacts, charities that did and did not use the exceptions to the gross proceeds of sale rule⁴ and charities that used or did not use contractors to operate their vehicle donation programs. Also, our screening contacts indicated that some charities had vehicle donation programs that increased, stayed about the same, or decreased in terms of the number of donated vehicles in 2006 or 2007 in comparison to 2002, and we selected a similar mix of charities for our in-depth interviews. The information provided by charity officials is anecdotal and cannot be generalized to other charities that operate vehicle donation programs. We did not independently verify the information provided by the charity officials.

We also reviewed and analyzed documents related to the rule changes, including IRS publications, forms and instructions, and notices, and Treasury Inspector General for Tax Administration (TIGTA) reports and our reports related to charitable contributions of vehicles or other noncash contributions. In addition, we interviewed TIGTA officials as well as IRS officials from the Tax Exempt and Government Entities, Wage and Investment, Small Business/Self Employed, and Large and Mid-Sized Business Divisions and analyzed related documents to determine IRS's plans for ensuring that charities and donors comply with the requirements related to vehicle donations or other noncash contributions. We performed our work from June 2007 through January 2008 in accordance

³We could not contact a representative sample of charities that operate vehicle donation programs because IRS officials and the President of the National Association of State Charity Officials said they did not know of any organization that maintained a list of charities that operate vehicle donation programs.

⁴Many donors are limited to deducting the gross proceeds of the sales of their donated vehicles on their tax returns. However, there are three exceptions to this rule. The three exceptions are that the charity intends to make a significant intervening use of the vehicle, the charity makes a material improvement to the vehicle, or the charity sells the vehicle in direct furtherance of its charitable purposes. If a vehicle donation meets one of the exceptions, the donor can deduct the fair market value of the donated vehicle on his/her tax return.

with generally accepted government auditing standards. Our scope and methodology are described in greater detail in appendix III.

Results in Brief

Selected charities reported mixed experiences after the rules related to the amount taxpayers could claim as a deduction for donating a vehicle to a charity changed.⁵ We interviewed officials from 10 of the 65 charities we previously interviewed in 2003 who still operate a vehicle donation program. They reported varied experiences in the number of, quality of, and revenue from donated vehicles; some changes in their business operations; and mixed experiences with administering the changes in the rules. Some charities experienced a substantial decline in the number of vehicles donated from 2003 to 2006. For those same years, of the 10 charities covered in our in-depth interviews, 6 reported decreases in the number of vehicles donated, 3 reported increases, and 1 did not provide data. However, when comparing years 2005 to 2006, 4 of the 5 charities that reported using one of the exceptions to the gross proceeds of sale rule also reported an increase in the number of vehicles donated. Charity experiences with the quality of donated vehicles varied. Three of the 10 charities reported an increase in quality, 3 reported a decrease, and 4 reported no change.

In terms of vehicle donation revenue, officials from 6 of the 10 charities reported a decrease from 2003 to 2006, 3 reported an increase, and 1 did not provide data but reported that the rule changes had no effect on the number of vehicle donations or revenue. We did not find a consistent pattern when comparing the number of vehicles donated with the revenue from the vehicle donation program or the charity's overall revenue. To deal with the decrease, some charities changed their fund-raising activities and some decreased services, such as reducing the number of hours services would be provided. Examples of changing business operations include using minimum bids at auctions, selling vehicles online, and selling vehicles directly to the public rather than to wholesalers. Finally, all 10 of the charities reported that they had experienced an increase in administrative burden because of the increase in reporting requirements, but the charities were able to accommodate the increase in paperwork.

⁵The experiences of these charities cannot be generalized to all charities because these selected charities were not drawn from a statistical sample of all charities with vehicle donation programs.

The Acting Commissioner of Internal Revenue was provided a draft of this report for her review and comment. IRS provided technical comments, and we incorporated them as appropriate.

Background

Section 884 of the American Jobs Creation Act of 2004⁶ changed the rules for the amount taxpayers could claim as a deduction on their tax returns for donating a qualified vehicle⁷ to a charity.⁸ The new rules were effective for all vehicle donations made after December 31, 2004. Prior to this change, eligible taxpayers could claim up to the fair market value of the donated vehicle as a deduction on their tax returns. For any vehicles donated to a charity on January 1, 2005, or later with a claimed value that exceeds \$500, taxpayers can only claim the lesser of the vehicle's fair market value or gross proceeds of the sale as a deduction on their tax returns unless the charity's intended use of the donated vehicle meets one of the three exceptions⁹ to the gross proceeds of the sale rule. If one of the exceptions is met, the taxpayer may be eligible to claim the fair market value of the vehicle as a deduction.¹⁰ The three exceptions are

- the charity intends to make a significant intervening use of the vehicle;¹¹
- the charity intends to make a material improvement to the vehicle;¹² or

⁶Pub. L. No. 108-357 § 884 (Oct. 22, 2004).

⁷A qualified vehicle is any motor vehicle manufactured primarily for use on public streets, roads, and highways; a boat; or an airplane. However, a vehicle held by the donor primarily for sale to customers, such as inventory of a vehicle dealer, is not a qualified vehicle.

⁸Taxpayers can deduct contributions of vehicles if they itemize their deductions on Schedule A (Itemized Deductions) of Form 1040 (U.S. Individual Income Tax Return).

⁹Publication 4303 (*A Donor's Guide to Vehicle Donations*; revised February 2006), provides an explanation of the exceptions and other guidance related to vehicle donations.

¹⁰To be eligible, the taxpayer must itemize deductions on his/her Schedule A (Itemized Deductions) of Form 1040 (U.S. Individual Income Tax Return). The taxpayer must also file other required documentation. See app. V, table 4 for details.

¹¹To qualify as a significant intervening use, the charity must actually use the vehicle to substantially further its regularly conducted activities and the use must be considerable. For example, a charity that delivers meals to needy individuals and uses a donated vehicle to deliver meals every day for a year is making a significant intervening use of the donated vehicle.

¹²A material improvement includes a major repair or improvement that results in a significant increase in the vehicle's value. Cleaning, minor repairs, and routine maintenance are not material improvements.

- the charity intends to give or sell the vehicle to a needy individual at a price significantly below fair market value in direct furtherance of the charity's charitable purpose.

If the charity sells the vehicle for \$500 or less and the exceptions do not apply, the taxpayer can deduct the lesser of \$500 or the vehicle's fair market value on the date of the contribution. Table 1 summarizes the amount donors could deduct for charitable contributions of vehicles before and after the changes in the rules for such deductions.

Table 1: Changes in Amount Donors Can Deduct for a Charitable Contribution of a Vehicle

Before changes in rules (any vehicle)	After changes in rules (vehicles donated January 1, 2005, or later)		
	Claimed value of vehicle is \$500 or less	Claimed value of vehicle exceeds \$500	
Fair market value	Lesser of fair market value or \$500	Fair market value if the charity intends to (a) make significant intervening use of vehicle, (b) make material improvement to vehicle, or (c) give or sell the vehicle to a needy individual in direct furtherance of the charity's charitable purpose	Gross proceeds of the sale if charity does not intend to do (a), (b), or (c)

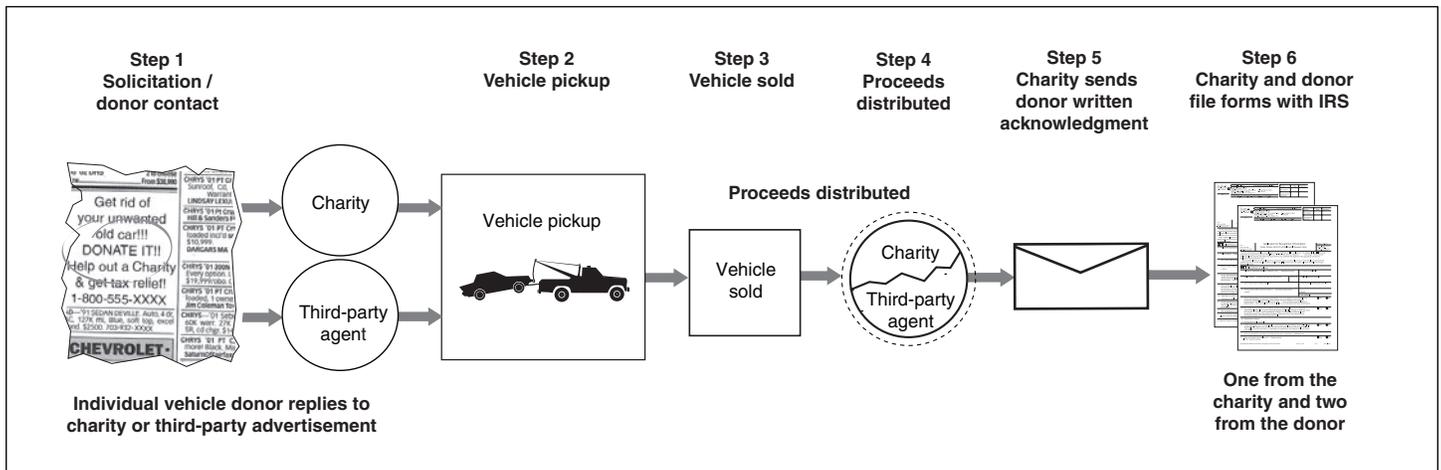
Source: GAO.

Vehicle Donation Process

The vehicle donation process generally consists of six steps: (1) solicitation/donor contact, (2) vehicle pickup, (3) vehicle sale, (4) distribution of proceeds, (5) charity provides donor with written acknowledgment, and (6) charity and donor file required forms with IRS.¹³ The vehicle donation process is depicted in figure 1.

¹³This six-step process is the usual course of handling vehicle donations according to the charities included in [GAO-04-73](#) and the charities we contacted as part of this review.

Figure 1: Vehicle Donation Process



Step 1 – Solicitation/donor contact. The vehicle donation process generally begins with solicitations for donated vehicles through advertisements. Vehicle donations may be solicited directly by charities, third-party agents, or both, depending on the agreement between the charities and third-party agents. Vehicle donations are solicited through advertisements on the radio, in newspapers, on the Internet, on truck banners, on television, and on billboards. Also during this step, donors initiate contact with the charity and or third-party agent to donate their vehicles. Either a charity or third-party agent may take the initial call from a potential donor, asking the donor questions that may be used to screen vehicles, such as the vehicle’s make, year, and condition and if the donor has the title to the vehicle.

Step 2 – Vehicle pickup. After the donor makes the initial call to donate a vehicle, arrangements are made to pick up the vehicle and deliver it to wherever it will be stored until it is sold. Once vehicles are picked up, the charity or third-party agent also obtains the title of the vehicle from the donor.

Step 3 – Vehicle sale. Once collected, donated vehicles are most often sold. Charities or third-party agents typically sell donated vehicles through auctions to auto dealers,¹⁴ to the public, or to vehicle salvagers.

Step 4 – Distribution of proceeds. After vehicles have been liquidated, the proceeds are distributed. Charities with in-house vehicle donation programs keep proceeds that remain after deducting costs associated with processing the vehicles. When charities use third-party agents, the financial agreement between the charity and the third-party agent dictates the proceeds that the charity and fund-raiser will receive from the sale.

Step 5 – Charity provides donor with written acknowledgment. Charities are required to provide a contemporaneous written acknowledgment to the taxpayer for any contribution of a vehicle with a claimed value that exceeds \$500. The charity can either create its own acknowledgment, or it can use Copy B of Form 1098-C (Contributions of Motor Vehicles, Boats, and Airplanes) as the contemporaneous written acknowledgment. For details about the information that must be included in the written acknowledgment, including contributions with a claimed value of \$500 or less, see appendix IV.

Step 6 – Charity and donor filing requirements. The charity must file a Form 1098-C if a donor contributes a qualified vehicle to a charity with a claimed value of more than \$500. Charities are not to file Form 1098-C for contributions of qualified vehicles with a claimed value of \$500 or less. Donors must attach Copy B of Form 1098-C, or a copy of the acknowledgment if the charity does not use Copy B for this purpose, to their returns if they are claiming a deduction of more than \$500. A donor must also file Form 8283 (Noncash Charitable Contributions) if the deduction he/she is claiming for a donated vehicle is greater than \$500 and attach it to the Form 1040 (U.S. Individual Income Tax Return). For more information on the filing requirements for charities and donors, see appendix V.

¹⁴These auctions are sometimes referred to as wholesale auctions.

Charities Have Had Mixed Experiences with Their Vehicle Donation Programs since the 2005 Changes

We contacted 58 charities during August 2007 and found that almost all of them still operated their vehicle donation programs. We conducted in-depth interviews with officials from 10 of these charities¹⁵ and learned that changes in the number of donated vehicles did not appear to correspond with changes in the quality of vehicles donated or with changes in overall fund-raising. Also, some charities have developed innovative ideas to increase revenue from vehicle donations.

Charities Continue to Operate Vehicle Donation Programs

Almost all of the charities contacted still operated their vehicle donation programs as of August 2007. In 2003, we interviewed officials from 65 charities when collecting data for our previous report.¹⁶ We attempted to contact all of these charities and successfully reached 58 of them.¹⁷ Through these contacts, we learned that all but 5 of the 58 charities still operated vehicle donation programs. During these contacts, we asked about changes in the numbers of vehicles being donated before and after the rule changes. Not all of the charities in our screening interviews provided information about the number of donated vehicles; 30 charities gave us this information and 21 of them said that they had seen a decrease, and the rest said that they saw increases or no change. Some of these changes were large, while others were fairly small.

We conducted an in-depth interview with an official from one of the five charities that no longer operates a vehicle donation program. According to the official, charity managers decided to discontinue the vehicle donation program before the rules were changed, choosing instead to focus their fund-raising activities on a large fund-raising campaign that lasted for a few years. The official said that by reallocating the resources that had been devoted to the vehicle program, the charity could raise more money by focusing on obtaining large donations from selected donors for its fund-raising campaign. At the remaining four charities that no longer had vehicle donation programs, officials told us either that the employees who used to operate the vehicle donation program no longer worked for the

¹⁵See app. VI for details about each of the 10 charities.

¹⁶GAO-04-73.

¹⁷For the remaining seven charities we either could not identify a current telephone number or we attempted to contact the charity and the charity did not respond.

charity and no other program officials could speak about the decision to discontinue the program or that the charity has not received any vehicles for the past 2 to 3 years.

Some Selected Charities Reported Substantial Declines in Number of Vehicles Donated and Had Varied Experiences with the Quality of Vehicles Donated

For the 10 charities covered in our in-depth interviews, 6 reported decreases from 2003 to 2006 in the number of vehicles donated, 3 reported increases and 1 did not provide data, as shown in table 2; however, the latter reported that the number of donated vehicles is about the same since the rule change.¹⁸ One charity's donations declined by over 37,000 vehicles, while others realized much smaller decreases ranging from about 350 to 600 vehicles when comparing 2003 and 2006 data. However, when comparing years 2005 to 2006, 4 of the 5 charities that reported using one of the exceptions to the gross proceeds of sale rule reported an increase in the number of vehicles donated. It is important to note that not all of the vehicles donated to a charity that can use one of the exceptions to the gross proceeds of sale rule are eligible for the exception. For example, a charity that gives donated vehicles to needy individuals in direct furtherance of its charitable purpose may sell some of the donated vehicles it receives. The vehicles given to needy individuals are eligible for the exception, but the vehicles that are sold to non-needy individuals are not.

¹⁸The 10 charities we selected for in-depth interviews experienced a similar proportion of increases and decreases in numbers of donated vehicles as the 30 that provided those data in our screening contacts.

Table 2: Number of Vehicles Donated by Year

Charity	Year			
	2003	2004	2005 ^a	2006
A ^b	519	304	204	114
B ^c	-	-	-	-
C	9,134	9,529	11,564	15,963
D	16,154	18,801	11,025	10,914
E	13	30	28	26
F	246	267	134	296
G	631	478	384	288
H	76,765	81,470	70,738	39,501
I	1,719	1,267	1,204	1,229
J	2,362	1,985	1,425	1,754

Source: Data reported by charity officials.

Notes: Some charities use a calendar year and some use a fiscal year for reporting purposes and the latter did not all use the same fiscal year. In this report, when we cite a year, we are using data based on the 12-month period used by each charity. Further, we did not independently verify the number of vehicles donated for each charity. Finally, the experiences of these charities cannot be generalized to all charities because these selected charities were not drawn from a statistical sample of all charities with vehicle donation programs. See app. III for more information.

^aThe rule changes became effective in 2005.

^bThe charity reorganized the vehicle donation program after the rule changes to make one office responsible for the entire state. For purposes of consistency, these data represent only the portion of the state the office was responsible for prior to the change.

^cThis charity was not able to provide the number of vehicles donated each year.

All of the six officials who reported a decrease in the number of vehicles donated to their charities attributed this decrease, at least in part, to the change in the rules. Some charity officials noted other factors that also may have affected the number of vehicles donated. For example, officials at two charities noted that there is more competition in the marketplace for donated vehicles. An official at another charity noted that vehicle donations often follow the trends in new vehicle sales, and if people are not buying as many new vehicles, they are less likely to donate vehicles.¹⁹ An official at a different charity said that she could not attribute reduced donations fully to the rule changes because the charity had decreased its advertising of the vehicle donation program over the past few years.

¹⁹According to the National Automotive Dealers Association, new vehicle sales increased from about 16.6 million in 2003 to 16.9 million in 2005 (a 1.87 percent increase) and then decreased in 2006 to about 16.5 million (a 2.6 percent decrease).

Charity experiences with the quality of donated vehicles also varied. Three of the 10 charities reported an increase in quality, 3 charities reported a decrease in quality, and 4 charities reported no change in the quality of vehicles donated. One of the charities that uses one of the exceptions to the gross proceeds of sale rule reported that the quality of donated vehicles generally increased and more of these vehicles could be refurbished and given to needy individuals. The official said that in 2002 the charity was only able to refurbish about 75 vehicles to give to clients while the charity gave away about 200 vehicles to clients in 2006. An official at another charity noted that the quality of the vehicles may be related to the demographics of the areas where the charity operates. In one area of the state, the charity tends to receive higher-quality vehicles because many of the area residents are retirees who are financially comfortable and able to donate their old vehicles, which are still in good condition, while donors in less-affluent parts of the state tend to donate vehicles that need to go straight to salvage yards.

Officials from eight charities said that they will take any vehicle in any shape, although some charities stipulate that the cost to tow the vehicle cannot be more than the value of the vehicle. Some of those charities sell the vehicles to salvage yards for the price of the metal or to salvage yards that pay a flat fee to the charity for the vehicles.

Some Selected Charities Reported Decreases in Vehicle Donation Revenue

Officials we interviewed from 6 of the 10 charities reported a decrease in vehicle donation revenue from 2003 to 2006, 3 reported an increase, and 1 did not provide data but reported that the rule changes had no effect on vehicle donations or revenue. We did not find a consistent pattern when comparing the number of vehicles donated with the revenue from the vehicle donation program or the charity's overall revenue. For example, 3 of the 6 charities that reported decreases in revenue from vehicle donation programs from 2003 to 2006 also reported a decrease in total revenue while the other 3 reported increases in total revenue. For 1 of these charities, the number of vehicles donated increased, while the revenue from those vehicles and total revenue decreased. In another case, a charity reported a decrease in the number of vehicles donated but increases in both the revenue from the vehicle donation program and total revenue.

Some of the charity officials we interviewed said that their organizations changed their fund-raising activities to offset the loss in revenue from their vehicle donation programs. For example, one charity started to increase the number of special events, such as tennis and golf tournaments and fund-raising dinners. In 2006, this charity held over 35 special events,

which raised \$1.2 million dollars. Another charity reported an increase in grant revenue to offset the loss in vehicle donation revenue but added that grant revenue is often earmarked for specific programs and activities unlike vehicle donation revenue, which can be used for general program administration.

Five of the 10 charities we interviewed reduced services or made other changes in their programs because of the loss in revenue from their vehicle donation programs. For example, 1 charity curtailed some services, such as decreasing hours of operations at some homeless shelters. Previously, this charity operated a 24-hour facility targeted at single men and women, but now the charity only operates the facility in the evenings. This same charity instituted a hiring freeze and has postponed or canceled staff merit pay increases because of the loss in revenue. Another charity reported closing some local offices and reducing its staff. However, 2 charities noted that the total revenue from their vehicle donation programs was a small percentage of their overall budgets. As such, 1 of these charities said that the decline in vehicle donation revenue did not have much of an impact on its ability to provide services.

Some of the Selected Charities Changed Their Vehicle Donation Business Operations in Order to Adapt to the New Environment

In order to offset decreased revenue from the vehicle donation programs, some charities have changed their vehicle donation business operations. Examples of changes include using minimum bids, selling vehicles online, and selling vehicles directly to the public.

One charity started placing a minimum bid amount on the vehicles sold at auction to help secure a higher selling price. The charity takes the chance that the vehicles will not sell and it will have to reclaim them at the end of the auction. This practice helps ensure that the charity will receive the minimum sale amount for each vehicle at some point. The charity also sends a representative to the auction to oversee the vehicle sales. The charity official said that his organization found that it got better prices when it directly oversaw the auction than when it left the whole process to the auction house.

One charity that provides services to needy persons has sold high-end vehicles on online auction sites such as eBay rather than giving them to needy individuals. Since high-end vehicles tend to have higher upkeep prices, the charity was concerned that the needy families would not be able to fix the vehicles if they broke down. Instead, the charity sells these vehicles at an online auction and uses the money in its program. This allows the charity to obtain more revenue than at a wholesale auction,

since the general public is bidding on the vehicle, not just wholesale buyers.

One of the charities we interviewed said that in response to the rule changes, it began operating a used car lot at the end of 2005. As a result, its revenue from vehicle donations doubled in 2006 over that of 2005, according to the charity official.

Selected Charities Reported Mixed Experiences with Administering the Changes in Vehicle Donation Rules

All of the charities said that administrative burdens have increased; however, some charity officials noted that they were able to accommodate the increase. The charity officials said that they had additional reporting requirements to contend with and that completing and filing the Form 1098-C was time consuming. For example, an official at one charity stated, “it takes time to fill out the Forms 1098-C and to prepare the acknowledgment that is sent to the donors. We have to keep track of each sale in order to provide the sale information to the donor. The donor cannot claim a deduction until the vehicle is sold.” The official also noted that although it was a burden, the charity has been able to handle the increase in paperwork. An official at another charity noted that the money spent on donor mailings has increased because the charity sends out a donor package with explanations of how the vehicle will be used and the acknowledgment for the donation and then must also send the Form 1098-C to the donor. According to the official, the paperwork has quadrupled but the charity can handle it. An official at a different charity stated that although it now has to file the Form 1098-C, the charity has also become more efficient at using technology and can therefore handle the increase in paperwork.

Six of the charities we interviewed reported difficulties with obtaining Social Security numbers from donors, while some of the others experienced few or no problems. Two charities noted that if donors do not want to provide their Social Security numbers, then box 7a on the Form 1098-C is checked and the donors cannot claim more than \$500 for the vehicle donation. Two charities said that they explain why they need the donors’ Social Security numbers in the letters sent to donors. Four charities found that donors were nervous about providing their Social Security numbers, possibly for fear of identity theft.

Six of the charities we interviewed noted that IRS’s guidance, forms, and publications are generally clear and user-friendly. In a few cases, charity officials were confused about some guidance. For example, one charity did not know the correct timing for sending the acknowledgments to the

donors, questioning if it was 30 days from receipt of the vehicle or 30 days from when they evaluated the vehicle.

Five charities noted that donors were asking more questions about the vehicle donation rule changes. One official noted that for about the first 6 months, some donors did not know that the rules changed but now most donors understand the new rules. Officials at the remaining 5 charities said that the number of questions from donors remained the same or decreased. One official noted that most of the donors were doing their own research before deciding to donate a vehicle.

Agency Comments

The Acting Commissioner of Internal Revenue was provided a draft of this report for her review and comment. IRS provided technical comments, and we incorporated them as appropriate.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after its date. At that time, we will send copies of this report to the Secretary of the Treasury, the Commissioner of Internal Revenue, and other interested parties. This report will also be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staff have any questions, please contact me at (202) 512-9110 or brostekm@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report were David Lewis, Assistant Director; Charlesetta Bailey; Amy Bowser; Laurie Ellington; Michele Fejfar; Robyn Howard; and Shellee Soliday.

Sincerely yours,



Michael Brostek
Director, Tax Issues
Strategic Issues Team

Appendix I: Steps IRS Took to Implement Changes

The Internal Revenue Service (IRS) took several steps to implement the new rules for claiming charitable deductions for vehicles, including providing guidance to both charities and donors. After the enactment of the new rules in October 2004, and before the new rules became effective on January 1, 2005, IRS issued a news release in November 2004 that explained the new rules.¹ This news release explained that the charity must provide donors acknowledgment of their donations, and that if the claimed value of the donated vehicle exceeds \$500 and the vehicle is sold by the charity, donors are limited to claiming the gross proceeds of the sale except in certain situations. During 2005 and 2006, IRS issued additional news releases, notices, and publications related to charitable contributions of vehicles including the following:

- Issued a notice in June 2005 that described the new rules, including that the deduction is limited to the gross proceeds of the sale with some exceptions; what the exceptions are and that when an exception applies, the donor may claim the fair market value of the vehicle; what information must be included in the acknowledgment charities send to donors; and what charities must report to IRS.²
- Issued a news release in December 2005 reminding taxpayers that they must obtain a charity's written acknowledgment of their vehicle donation and that if the deduction is for more than \$500, they must attach the acknowledgment to their tax return.³
- Issued a notice in January 2006 that describes the information reporting requirements for charities.⁴
- Issued a revised publication for donors in February 2006 that describes how much they can deduct, how their deduction is generally limited to the gross proceeds of the sale unless an exception applies, what the exceptions are, how to determine fair market value if they are entitled to claim fair market value, when an appraisal is required, and what documents must be attached to their returns.⁵

¹Internal Revenue Service, "IRS Officials Urge Care for Those Making a Car Donation; New Law Changes Rules at End of Year," news release IR-2004-142, November 30, 2004.

²Internal Revenue Service, "Charitable Contributions of Certain Motor Vehicles, Boats, and Airplanes," Notice 2005-44/Internal Revenue Bulletin 2005-25, June 20, 2005.

³Internal Revenue Service, "IRS Reminds Taxpayers About Requirement of Written Acknowledgment for Donated Cars," news release IR-2005-149, December 22, 2005.

⁴Internal Revenue Service, "Information Reporting by Organizations That Receive Charitable Contributions of Certain Motor Vehicles, Boats, and Airplanes," Notice 2006-1/Internal Revenue Bulletin 2006-4, January 23, 2006.

⁵Internal Revenue Service, *A Donor's Guide to Vehicle Donations*, Publication 4303 (revised February 2006).

- Issued a revised publication for charities in May 2006 that describes charities' responsibilities in relation to vehicle donations, including what must be included in an acknowledgment and when it must be sent to the donor, guidance about using the exceptions to the gross proceeds of the sale rule, and what information must be reported to IRS and when it must be provided.⁶
- Issued a notice in November 2006 that provided guidance related to the requirement for appraisals of noncash charitable contributions. An appraisal is required if the taxpayer is claiming more than \$5,000 for a donated vehicle.⁷

Besides issuing these documents that specifically relate to charitable contributions of vehicles, IRS also included information about vehicle donations in other publications.⁸

In addition to news releases, notices, and publications, IRS also created Form 1098-C (Contributions of Motor Vehicles, Boats, and Airplanes) to be used by charities to report each contribution of a qualified vehicle with a claimed value of more than \$500.⁹ Charities must send a written acknowledgment of vehicle donations to donors, and they can use Form 1098-C for this purpose. The form includes all the information required by law to be included in the written acknowledgment. Form 1098-C has four copies—Copy A, which the charity files with IRS; Copy B, which the charity sends to the donor and the donor attaches to his or her return; Copy C, which the charity sends to the donor and the donor keeps for his or her records, and Copy D, which the charity keeps for its records.

The Treasury Inspector General for Tax Administration (TIGTA) agreed in its September 2007 report that IRS took several steps to implement the new rules and that IRS properly updated tax forms and publications, provided training and information to employees to facilitate the implementation of the requirement, and added a link on the Large and Mid-Sized Business Division's Web site to guidance related to vehicle

⁶Internal Revenue Service, *A Charity's Guide to Vehicle Donations*, Publication 4302 (revised May 2006).

⁷Internal Revenue Service, "Guidance Regarding Appraisal Requirements for Noncash Charitable Contributions," Notice 2006-96/Internal Revenue Bulletin 2006-46, November 13, 2006.

⁸Internal Revenue Service, *Charitable Contribution*, Publication 526 (2006), and *Determining the Value of Donated Property*, Publication 561 (2007).

⁹A qualified vehicle is any motor vehicle manufactured primarily for use on public streets, roads, and highways; a boat; or an airplane.

donations.¹⁰ However, TIGTA also found that in 80 percent of the sample cases reviewed, taxpayers, preparers, or both did not prepare/file the required forms for claiming the deduction. TIGTA recommended that IRS develop a comprehensive outreach plan for taxpayers and preparers on the reporting requirements for vehicle donations. IRS management disagreed with this recommendation because they believe the actions IRS was taking in response to a similar recommendation in an earlier TIGTA report, related to noncash contributions that did not cover vehicle donations, would address the new reporting requirement for vehicle donations.¹¹ TIGTA disagreed with IRS management's response because the deficient returns included in TIGTA's sample were filed after IRS provided outreach to the public. TIGTA agreed that taking additional actions to publicize reporting requirements for noncash contributions may address the new reporting requirements for vehicle deductions but added that the outreach efforts must specifically emphasize that the documentation requirements for donated vehicles are different than those for other noncash contributions. Currently, IRS's proposed outreach plan does not emphasize vehicle donations; however, according to a Wage and Investment Policy Analyst, IRS intends to include information in this outreach effort that will address vehicle donations.

¹⁰Treasury Inspector General for Tax Administration, *Improved Procedures Are Needed to Identify Noncompliance With the Reporting Requirements for Contributions of Motor Vehicles*, Reference Number 2007-30-171 (Washington, D.C.: Sept. 17, 2007).

¹¹Treasury Inspector General for Tax Administration, *The Internal Revenue Service Needs to Improve Procedures to Identify Noncompliance With the Reporting Requirements for Noncash Charitable Contributions*, Reference Number 2007-30-049 (Washington, D.C.: Mar. 5, 2007).

Appendix II: IRS's Plans to Ensure Charity and Donor Compliance

Internal Revenue Services' Tax Exempt and Government Entities Division (TE/GE) is responsible for determining if charities are complying with the vehicle donation tax rules and the Wage and Investment Division (W&I) and the Small Business/Self Employed Division (SB/SE) are responsible for determining if donors are complying with the vehicle donation tax rules. Officials in these divisions said that they currently are not concentrating on charity or donor compliance with the vehicle donation rules in part because of competing priorities for compliance resources. However, if a charity or donor is selected for an examination, one of the items that could be reviewed is compliance with the vehicle donation rules.

The Exempt Organizations Examinations Office staff in TE/GE, which determines if charities are complying with tax rules, used input from its Strategic Planning Work Group, which brainstorms ideas to determine if issues should be addressed, and information obtained from Congress, IRS staff, TIGTA reports, and the media to prioritize its work. Using this information and because of limited compliance resources, officials of that office said that they determined that issues other than vehicle donations had a higher priority. In addition, in July 2007, the TE/GE Commissioner testified that IRS is focusing on noncash contributions, but the problems are greatest for noncash contributions for which there is no ready market.¹ Based on our interviews with officials from 10 charities that operate vehicle donation programs, there is a ready market for donated vehicles.

W&I officials said that they decided not to focus compliance resources on donated vehicles after conducting correspondence examinations in 2005 of a sample of 204 tax returns that included deductions for donated vehicles and closing 88 percent of the examinations with no changes.² The average tax change made to the remaining returns was \$382. They concluded that the high rate of no change cases and the low audit results in terms of dollars indicated that vehicle donations were not conducive for correspondence examinations. In addition, according to the W&I

¹Testimony of Steven T. Miller, Commissioner, Tax Exempt and Government Entities Division, Internal Revenue Service, before the Subcommittee on Oversight, House Committee on Ways and Means on the Oversight of Tax-Exempt Organizations, July 24, 2007.

²The sample returns were for tax year 2004—before the new vehicle donation rules took effect.

Automated Under Reporter (AUR) Program Chief,³ IRS has not done any studies to determine if there would be a high return on investment from instituting automated document matching related to vehicle donations.

An SB/SE Division Program official said that when identifying special compliance initiatives, for example in vehicle donations, IRS considers the amount of possible increased tax revenue that could be realized from an examination in comparison to the resources spent on the examination. Currently, IRS is not developing a special compliance initiative for vehicle donations. However, in response to a TIGTA recommendation, IRS is adding an audit indicator to returns claiming charitable deductions for donated vehicles over a specific dollar threshold that did not have Form 8283 (Noncash Charitable Contributions) attached. Thus, according to the SB/SE official, if a tax return is selected for an examination for other reasons, the audit indicator will let examination staff know that they should also look at the vehicle donation.

Besides recommending that IRS add an audit indicator to certain returns with vehicle donations, TIGTA also recommended in its September 2007⁴ report on charitable donations of vehicles that IRS

- lower the dollar threshold for reviewing returns with unsubstantiated deductions for donated vehicles and
- correspond with taxpayers to obtain missing documentation.

IRS management responded that they consider vehicles a small subset of the overall population of noncash charitable contributions, they will not lower the threshold, and they will continue to correspond with taxpayers who do not provide documentation if their noncash contribution is over a specific dollar threshold. They also said that they are exploring alternative ways to address lower-dollar vehicle donation compliance issues.

According to an SB/SE senior program analyst involved with exam policy, IRS is revising Form 8453 (U.S. Individual Income Tax Declaration for an IRS *e-file* Return). This form will be used to transmit supporting paper documents that are required to be submitted to IRS by taxpayers who are

³The AUR program examines tax returns where the income reported on the tax returns is less than what is reported by third parties such as banks and employers.

⁴Treasury Inspector General for Tax Administration, *Improved Procedures Are Needed to Identify Noncompliance With the Reporting Requirements for Contribution of Motor Vehicles*.

filing electronically. The Form 8453 will include a list of paper forms that can be submitted with Form 8453. These will include Form 1098-C and Form 8283. This should remind filers that they must file these forms with IRS. TIGTA disagreed with IRS's policy of treating vehicles as a small subset of the overall population of noncash contributions. In TIGTA's opinion, since Congress specifically provided substantiation levels for vehicles that were different than the requirements for other noncash contributions, to ignore this when administering the tax law is not in keeping with Congress's intent.

Appendix III: Objectives, Scope, and Methodology

Our objective was to determine how charities have been affected by the 2005 changes to the amounts donors can claim on their tax returns for donated vehicles. To address this objective, we reviewed the new vehicle donation rules that became effective January 1, 2005, and compared them to the previous vehicle donation rules. In addition, we contacted 58 of the 65 charities¹ we interviewed for our November 2003 report about the vehicle donation process,² and determined which of these charities still operated a vehicle donation program as of August 2007 and if they used a contractor to operate the program. In our screening contacts, we also asked about changes in the number of donated vehicles in 2006 or 2007 in comparison to 2002. About half of the charities—30 out of the 58—provided a response to this question, and 21 of them said they had seen decreases and the rest said they had seen increases or no change in numbers of donated vehicles. We selected 10 of the 58 charities that still operated programs and 1 that no longer operated a program and interviewed officials to obtain their views about how the changes affected the number and quality of donated vehicles, vehicle donation revenues, their vehicle donation programs, and administrative burden. To ensure that we obtained the views of officials who operated a wide variety of vehicle donation programs, we selected charities that did and did not use the exceptions to the gross proceeds of sale rule³ and charities that used or did not use a contractor to operate their vehicle donation programs. The charities we selected also reflected changes in the numbers of donated vehicles from 2002 to 2006 or 2007 in similar proportion to what we found in our screening contacts. The information provided by charity officials is anecdotal and cannot be generalized to other charities that operate vehicle donation programs. We did not independently verify the information provided by the charity officials.

In addition, to provide information on the steps IRS took to implement these changes and to ensure charity and donor compliance, we analyzed

¹For the remaining seven charities, we could not identify a current telephone number or we contacted the charity but the charity did not return our calls.

²[GAO-04-73](#).

³Many donors are limited to deducting the gross proceeds of the sale of their donated vehicles on their tax returns. However, there are three exceptions to this rule. The three exceptions are the charity intends to make a significant intervening use of the vehicle, the charity makes a material improvement to the vehicle, or the charity sells the vehicle in direct furtherance of its charitable purposes. If a vehicle donation meets one of the exceptions, the donor can deduct the fair market value of the donated vehicle on his/her tax return.

documents and interviewed officials. To provide information about implementation, we reviewed the guidance IRS issued to implement the changes, including news releases, notices, publications, and forms and instructions and TIGTA's evaluation of IRS's implementation of the changes in the rules.⁴ To provide information about IRS's efforts to ensure compliance, we analyzed TE/GE, W&I, SB/SE, and LMSB documents related to charitable contributions of vehicles and other noncash contributions, including TE/GE's implementing guidelines for its annual work plans for fiscal years 2005 through 2007, a W&I analysis of a sample of taxpayers who claimed a deduction for a vehicle donation to determine if it should conduct correspondence examinations of vehicle donations, SB/SE's analysis to determine if it should lower the threshold for examining returns that claim deductions for donated vehicles, and LMSB's proposed outreach plan for providing information about noncash contributions. We also interviewed officials from those divisions about compliance issues, and interviewed TIGTA officials and reviewed the results of TIGTA's evaluation of IRS's controls over the processing of deductions for donated vehicles reported on individual tax returns.⁵

We performed our work from June 2007 through January 2008 in accordance with generally accepted government auditing standards.

⁴Treasury Inspector General for Tax Administration, *Improved Procedures Are Needed to Identify Noncompliance With the Reporting Requirements for Contribution of Motor Vehicles*.

⁵Treasury Inspector General for Tax Administration, *Improved Procedures Are Needed to Identify Noncompliance With the Reporting Requirements for Contribution of Motor Vehicles*.

Appendix IV: Information Charity Must Include in Written Acknowledgment

As shown in table 3, the information charities must include in the written acknowledgment they send to donors varies depending on the value of the donated vehicle.

Table 3: Information That Charity Must Include in Written Acknowledgment Sent to Donor

Information charity must include in the written acknowledgment sent to donor	If the donor claims the value of the vehicle is more than \$500 and the charity's intended use of the vehicle meets one of the exceptions to the gross proceeds of sale rule	If the charity sells the vehicle for more than \$500	If the gross proceeds from the sale are \$500 or less or the donor is claiming a charitable deduction of at least \$250 but no more than \$500
Information on what the charity did or intends to do with the vehicle—see below for further information required about a charity's use of a donated vehicle	X	X	
Donor's name and taxpayer identification number	X	X	
Vehicle identification number	X	X	
Date of the contribution	X	X	
One of the following: (a) statement that no goods or services were provided by the charity in return for the donation, if that was the case; (b) description and good faith estimate of the value of goods or services, if any, that the charity provided in return for the donation; or (c) statement that goods or services provided by the charity consisted entirely of intangible religious benefits, if that was the case	X	X	X
Statement certifying that the vehicle was sold in an arm's length transaction between unrelated parties		X	
Date the vehicle was sold		X	
Gross proceeds from the sale		X	
Statement that the donor's deduction may not exceed the gross proceeds from the sale		X	
Description but not the value of the vehicle			X

Source: IRS Publication 4302, *A Charity's Guide to Vehicle Donations*.

If a charity intends to (1) make a significant intervening use of the vehicle, (2) make a material improvement to the vehicle, or (3) give or sell the vehicle to a needy individual, the charity must include additional information in the acknowledgment in addition to the information included in table 3. For a significant intervening use, the letter must include

- a statement certifying that the charity intends to make a significant intervening use of the donated vehicle,
- a detailed statement of the intended use,
- a detailed statement of the duration of that use, and
- a certification that the vehicle will not be sold before completion of the use.

For a material improvement, the letter must include

- a statement that the charity intends to make a material improvement to the donated vehicle,
- a detailed description of the intended material improvement, and
- a certification that the vehicle will not be sold before completion of the improvement.

For giving or selling a vehicle to a needy individual, the letter must include a certification that

- the charity intends to give or sell the vehicle to a needy individual at a price significantly below fair market value and
- the gift or sale is in direct furtherance of the charity's charitable purpose of relieving the poor and distressed or the underprivileged who are in need of a means of transportation.

Appendix V: Charity and Donor Filing Requirements

If a donor contributes a qualified vehicle to a charity with a claimed value of more than \$500, the charity must file a Form 1098-C (Contributions of Motor Vehicles, Boats, and Airplanes) for that vehicle. This form has four parts:

- Copy A which the charity files with IRS;
- Copy B which the charity sends to the donor and the donor is to attach it to his/her tax return;
- Copy C which the charity sends to the donor for his/her records; and
- Copy D which the charity retains for its records.

Charities can use Copy B as the contemporaneous written acknowledgment that charities must send to donors. Charities are not to file Form 1098-C for contributions of qualified vehicles with a claimed value of not more than \$500; however, they may provide the donor with Copy C as the acknowledgment. Donors must attach Copy B, or a copy of the acknowledgment if the charity does not use Copy B for this purpose, to their returns if they are claiming a deduction of more than \$500.

In addition, if a charity receives a donated vehicle that has a claimed value greater than \$5,000 and sells or otherwise disposes of the vehicle within 3 years after the donation, the charity must file Form 8282 (Donee Information Return) within 125 days of the disposition. The charity must also provide a copy of the filed Form 8282 to the original donor.

Besides filing the acknowledgment, donors must also complete Section A¹ of Form 8283 (Noncash Charitable Contributions) if the deduction they are claiming for a donated vehicle is greater than \$500, but not more than \$5,000, and attach it to Form 1040 (U.S. Individual Income Tax Return). If the deduction the donor is claiming is greater than \$5,000, he/she must complete Section B² of the Form 8283, which must include the signature of an authorized official of the charity, and attach it to the return. In addition, if the deduction is over \$5,000 and the deduction is not limited to the gross proceeds from the sale of the vehicle, the donor must get a written appraisal of the vehicle. Table 4 lists the donor's recordkeeping and filing requirements.

¹Donated Property of \$5,000 or Less and Certain Publicly Traded Securities.

²Donated Property Over \$5,000 (Except Certain Publicly Traded Securities).

Appendix V: Charity and Donor Filing Requirements

Table 4: Donor's Recordkeeping and Filing Requirements for Vehicles Donated to Charities

Requirement	Deductions of less than \$250	Deductions of \$250 or more, but not more than \$500	Deductions greater than \$500, but not more than \$5,000	Deductions greater than \$5,000
Recordkeeping requirements				
Name/address of charity	X	X	X	X
Date of donation	X	X	X	X
Place where you donated vehicle	X	X	X	X
Description of vehicle	X	X	X	X
Contemporaneous written acknowledgment from charity		X	X	X
Filing requirements				
Written acknowledgment			X	X
Form 8283, Section A (Donated Property of \$5,000 or Less and Certain Publicly Traded Securities)			X	
Form 8283, Section B (Donated Property Over \$5,000 Except Certain Publicly Traded Securities)				X
Written appraisal—if deduction is not limited to gross proceeds				X

Source: IRS Publication 4303, A Donor's Guide to Vehicle Donations.

Appendix VI: Detailed Descriptions of Charities

We profiled 10 charities that operated a vehicle donation program as of August 2007. Tables 5 through 14 highlight information provided to us in interviews with charity officials about their vehicle donation programs.

Table 5: Charity A

Main purpose or mission	To fight lung disease and promote lung health		
Charity is independent or affiliated with a national charity	Affiliated		
Operate vehicle donation program independently or as part of a program operated by the national charity	Independent		
Operate vehicle donation program in-house or use a third party	In-house		
Types of vehicles accepted	Passenger cars, trucks, motorcycles, recreational vehicles/campers, boats		
Condition of vehicles accepted	Any condition		
What is done with vehicles	All vehicles are sold at auction or to salvage yards		
Charity is able to use an exception to the gross proceeds of sale rule	No		
Recent vehicle donation statistics ^a			
Fiscal year (July 1 – June 30)	Number of vehicles donated	Net revenue for donated vehicles	Total charity revenue (vehicle and nonvehicle)
2002	380	\$133,148	\$3,031,121
2003	519	202,305	1,837,832
2004	304	145,290	1,063,888
2005	204	120,268	1,121,058
2006	114	50,800	1,126,184
2007 (through 8/31/07)	57	42,201	1,686,280

Sources: The charity's area executive director and the vehicle donation program director.

^aThe charity reorganized the vehicle donation program after the rule change to make one office responsible for the entire state. For purposes of consistency, these data represent only the portion of the state the office was responsible for prior to the change.

Effects of rule changes reported by charity:

- Number and quality of vehicles donated
 - The total number of donated vehicles has decreased since the rules changed.
 - The quality of vehicles has stayed about the same since before the rules changed. The quality of the vehicles may be related to the demographics of the state. In one area of the state where this charity operates, the charity tends to receive higher-quality vehicles because many of the residents are retirees who are financially comfortable and able to donate their old vehicles, which are still in good condition,

while donors in less-affluent parts of the state tend to donate vehicles that need to go straight to salvage yards.

- Revenue
 - The net revenue from the donated vehicles decreased since the rules changed.
 - To increase other revenue-producing activities to offset decreases in revenue from the vehicle donation program, the charity started to increase the number of special events, such as tennis and golf tournaments and fund-raising dinners. In 2006, the charity held over 35 special events, which raised \$1.2 million.
- Business operations
 - The charity decreased the number of staff working for the vehicle donation program and streamlined the business operations by consolidating all locations that ran the vehicle donation program in the state into one office.
 - The charity uses a scrap recovery company for the vehicles that need to go to the salvage yard.
- Administration of rule changes
 - Administrative burden increased because of more time-consuming paperwork.
 - The IRS guidance and documents have improved since the vehicle donation rules originally changed and they are now clearer and simpler to use.
 - Donors are asking about the same number of questions as before the rules changed.
- Other
 - Many vehicle auctions that include vehicles donated to charities are only open to dealers, not the public. Consequently, the cars are not selling for what they would in a retail market.

Appendix VI: Detailed Descriptions of Charities

Table 6: Charity B

Main purpose or mission	To provide people and organizations access to jobs, transportation, housing, and training to realize their potential as contributing members of the community
Charity is independent or affiliated with a national charity	Independent
Operate vehicle donation program independently or as part of a program operated by the national charity	Independent
Operate vehicle donation program in-house or use a third party	In-house
Types of vehicles accepted	Passenger cars, trucks, motorcycles, recreational vehicles/campers
Condition of vehicles accepted	Any condition as long as the donor can get it to the location of the charity
What is done with vehicles	75 percent are sold 25 percent are sent to scrap metal yards
Charity is able to use an exception to the gross proceeds of the sale rule	No
Recent vehicle donation statistics	

Fiscal year (July 1 – June 30)	Number of vehicles donated	Net revenue for donated vehicles	Total charity revenue (vehicle and nonvehicle)
2002	a	a	a
2003	a	a	a
2004	a	a	a
2005	a	a	a
2006	a	a	a
2007 (through 8/31/07)	a	a	a

Source: The charity's office manager who is responsible for answering questions about vehicle donations and sales.

^aCharity official did not provide this information.

Effects of rule changes reported by charity:

- Number and quality of vehicles donated
 - The charity did not experience any change in the number or quality of vehicles donated even though there are now more programs with vehicle donations in its geographical area.
 - The rules changes have not affected donors' decisions about whether to donate a vehicle based on what they can claim on their tax returns.
- Revenue
 - The net revenues from the vehicle donation program have not decreased.
- Business operations

- The charity repairs most of the donated vehicles at an auto-repair shop that it uses to train people in automotive repair. It then sells the vehicles to the public for \$800 to \$2,500. The charity operated in the same manner prior to the rule change.
- Administration of rule changes
 - Administrative burden increased slightly, but officials are able to handle the increase.
 - Some donors do not want to provide their Social Security numbers. The charity informs the donors that if they do not provide their Social Security numbers, then they cannot claim more than \$500 on their tax returns. It is a burden on the charities to obtain the donors' Social Security numbers.
 - The guidance on the rule changes is better than it was in the past because it is more user-friendly.
 - The charity has not noticed any increase in the number of questions donors ask. Donors do not ask many questions.

Appendix VI: Detailed Descriptions of Charities

Table 7: Charity C

Main purpose or mission	To provide free vehicles to disadvantaged people throughout the nation
Charity is independent or affiliated with a national charity	Independent
Operate vehicle donation program independently or as part of a program operated by the national charity	Independent
Operate vehicle donation program in-house or use a third party	In-house
Types of vehicles accepted	Passenger cars, trucks, motorcycles, recreational vehicles/campers, boats
Condition of vehicles accepted	Any condition unless the cost to tow the vehicle is more than the value of the vehicle
What is done with vehicles	Approximately 65 percent are sold at auction 30 percent are sold to salvage yards 5 percent are given to clients
Charity is able to use an exception to the gross proceeds of sale rule	Yes, for the 5 percent that are given to clients

Recent vehicle donation statistics

Fiscal year (Sept. 1- Aug. 31)	Number of vehicles donated	Net revenue for donated vehicles	Total charity revenue (vehicle and nonvehicle)
2002 ^a	a	a	a
2003	9,134	\$2,624,177	\$3,700,691
2004	9,529	3,288,449	4,928,696
2005	11,564	4,461,297	6,733,802
2006	15,963	5,883,225	8,684,333
2007	13,698	5,200,549	8,704,895

Sources: The charity's president and chief executive officer.

^aCharity official did not provide this information.

Effects of rule changes reported by charity:

- Number and quality of vehicles donated
 - The total number of vehicles donated has decreased from 2006 to 2007.
 - Some of the decrease in the number of donated vehicles may be because of the slowing of the economy, which results in fewer people buying new vehicles. Vehicle donations often follow the trend in new vehicle sales.
 - The charity official said that the quality of those vehicles has increased.
- Revenue
 - The increase in net revenue from the vehicle donation program is in part because of the charity's ability to use one of the exceptions to the gross proceeds of sale rule.

- Business operations
 - This charity is a licensed motor vehicle dealer in its state. The charity operated in the same manner prior to the rule changes.
- Administration of rule changes
 - The charity spends a lot of money on donor mailings and has experienced an increase in administrative burden because the charity sends out a donor package with explanations of how the vehicle will be used and the acknowledgment for the donation and then must also send the Form 1098-C to the donor. The paperwork has quadrupled but the charity can handle it, according to the official.
 - Donors are reluctant to provide their Social Security numbers. To help deal with this, the charity explains in a letter the need for the donor's number in order to claim a deduction for a donated vehicle.
 - Donors are asking more questions since the change in the rules than they did before.
- Other
 - The charity official was concerned about the lack of oversight of third-party contractors.

Table 8: Charity D

Main purpose or mission	To provide integrated services to assist the homeless in breaking the cycle of homelessness
Charity is independent or affiliated with a national charity	Independent
Operate vehicle donation program independently or as part of a program operated by the national charity	Independent
Operate vehicle donation program in-house or use a third party	In-house
Types of vehicles accepted	Passenger cars, trucks, motorcycles, recreational vehicles/campers, boats, airplanes
Condition of vehicles accepted	Any condition as long as it is cost effective to tow the vehicle to the charity's facility
What is done with vehicles	Almost all vehicles are sold
Charity is able to use an exception to the gross proceeds of sale rule	Yes for about 5 to 10 vehicles per month
Recent vehicle donation statistics	

Calendar year	Number of vehicles donated	Net revenue for donated vehicles	Total charity revenue (vehicle and nonvehicle)
2002	16,704	\$9,464,337	\$44,346,344
2003	16,154	9,057,427	46,123,563
2004	18,801	10,920,907	48,412,355
2005	11,025	7,567,668	38,320,252 ^a
2006	10,914	7,575,371	47,949,478
2007 (through 8/31/07)	6,321	5,155,548	25,609,783

Sources: The charity's vice president, vice president of retail, director of vehicle donation program, and chief financial officer.

^aThe decrease was in part because of a decrease in bequests.

Effects of rule changes reported by charity:

- Number and quality of vehicles donated
 - The number of vehicles donated decreased.
 - The quality of the vehicles donated has not been an issue since the rule changes.
- Revenue
 - The net revenue from donated vehicles has decreased. Revenue from vehicles decreased more than \$3,000,000 in both 2005 and 2006 in comparison to 2004.
 - The decline in total charity revenue in 2005 was greater than the decline in net vehicle donation revenue. This was in part because of a decrease in bequests.
 - To offset the decrease in revenue from vehicle donations, the charity decreased some services, such as the hours of operation for a homeless

shelter from 24 hours per day to the evening hours only. The charity also was unable to expand existing services or start new services. In addition, the charity reduced staff, instituted a hiring freeze, and has not given or has postponed merit pay raises.

- An increase in grants and bequests has offset some of the loss from vehicle donations; however this revenue is often earmarked for certain activities or programs and may not be used for general program administration.
- Business operations
 - The charity operates its own auctions, which it also did prior to the rule changes.
- Administration of rule changes
 - The number of forms the charity must complete has increased, but the charity has also become more efficient in using technology to handle the increase.
 - Donors are nervous about providing their Social Security numbers for fear of identity theft. The charity informs the donors that if they do not provide their Social Security numbers, then they cannot claim more than \$500 on their returns.
 - The officials did not identify anything in the IRS publications that was unclear.
 - The donors do not ask too many questions, mostly doing their own research before donating a vehicle.
- Other
 - The charity operates its vehicle donation program in-house and does not share the revenue from the program with a for-profit entity. Thus, all the revenue from the vehicle donation program is used to further the charitable purpose. In the officials' opinion, the donors of vehicles to charities that operate programs in-house and retain at least 80 percent of the net proceeds from the sales should be able to claim the fair market value of their vehicles on their tax returns. IRS could revise its guidance for the interpretation of the furtherance of charitable purposes exception to incorporate this concept. The officials have developed a legislative proposal that incorporates this concept and presented it to their state's congressional delegation.

Table 9: Charity E

Main purpose or mission	Raise and invest funds for two community colleges
Charity is independent or affiliated with a national charity	Independent
Operate vehicle donation program independently or as part of a program operated by the national charity	Independent
Operate vehicle donation program in-house or use a third party	Contractor manages pickup, repairs, selling, and paperwork for vehicles. In-house management handles advertising and donor calls.
Types of vehicles accepted	Passenger cars, trucks, motorcycles, recreational vehicles/campers, boats
Condition of vehicles accepted	Vehicles must be in running or close to running condition. Charity does not accept scrap metal vehicles
What is done with vehicles	Some vehicles are repaired but all vehicles are sold
Charity is able to use an exception to the gross proceeds of sale rule	No
Recent vehicle donation statistics	

Fiscal year (July 1 – June 30)	Number of vehicles donated	Net revenue for donated vehicles	Total charity revenue (vehicle and nonvehicle)
2002	7	\$7,275	^a
2003	13	14,637	^a
2004	30	26,142	^a
2005	28	21,259	\$2,482,000
2006	26	21,832	4,185,000
2007 (through 8/31/07)	2	1,026	5,253,000

Source: The charity's assistant director.

^aCharity official did not provide this information.

Effects of rule changes reported by charity:

- Number and quality of vehicles donated
 - Although the changes may have had some effects on the number of vehicles donated, the charity has decreased its efforts to advertise this program in the past couple of years.
 - The quality of the vehicles has decreased, and the charity has received more calls from donors of vehicles that need to go to the salvage yard.
- Revenue
 - Because the charity raises most of its revenues through other means, the lost revenue from the vehicle donation program did not have a large impact.
- Business operations
 - No changes have been made to the business operations; however, the charity used to advertise in newspapers and had banners around town. It no longer uses those methods to advertise.

- Administration of rule changes
 - Recordkeeping and reporting requirements have increased.
 - IRS publications and guidance were not disseminated in a timely manner.
 - Donors are asking more clarifying questions about claiming a deduction for a donated vehicle, but overall donors are asking about the same amount of questions since the rules changed as they did before they changed.

Table 10: Charity F

Main purpose or mission	To provide donated vehicles to low income families and individuals at a significantly reduced price
Charity is independent or affiliated with a national charity	Independent
Operate vehicle donation program independently or as part of a program operated by the national charity	Independent
Operate vehicle donation program in-house or use a third party	In-house
Types of vehicles accepted	Passenger cars, trucks, motorcycles, recreational vehicles/campers, boats
Condition of vehicles accepted	Vehicle must be in good condition and could be used by clients
What is done with vehicles	30 percent are sold 70 percent are repaired and given to clients
Charity is able to use an exception to the gross proceeds of sale rule	Yes, for the 70 percent of vehicles given to clients

Recent vehicle donation statistics			
Fiscal year (July 1 – June 30)	Number of vehicles donated	Net revenue for donated vehicles	Total charity revenue (vehicle and nonvehicle)
2002	174	^a	\$250,000
2003	246	\$44,880	361,000
2004	267	101,392	314,000
2005	134	78,923	388,000
2006	296	39,974	341,000
2007 (through 8/31/07)	186	38,894	671,000

Source: The charity's executive director.

^aCharity official did not provide this information.

Effects of rule changes reported by charity:

- Number and quality of vehicles donated
 - Initially, the number of vehicles decreased; however, the charity expects to receive about 330 vehicles in 2007.
 - The quality of the vehicles has increased since the rules changed. For example, in 2002 the charity was only able to use about 75 vehicles to give to low-income families or individuals, but in 2006 it was able to give about 200 vehicles to low-income families or individuals. Thus, although the number of donated vehicles increased in 2006, it sold fewer vehicles, resulting in a decrease in net revenue from donated vehicles.
- Revenue
 - The charity did not need to change its revenue-producing activities because of the program it operates in conjunction with the state.
- Business operations

- The charity inspects and repairs donated vehicles which are given to low-income families and individuals. A department in the state that trains and finds jobs for low-income people pays the charity a flat fee per vehicle; the department's staff refers selected families or individuals to receive a vehicle from the charity for \$1 after the vehicle has been repaired. The charity operated in the same manner prior to the rule change.
- The charity sells high-end vehicles on online auction sites because low-income families or individuals may not be able to maintain these vehicles. Since high-end vehicles tend to have higher upkeep prices, the charity was concerned that the needy families would not be able to fix the vehicles if they broke down. This allows the charity to obtain more revenue than at a wholesale auction, since the general public is bidding on the vehicle and not just wholesale buyers. The charity uses the revenue to finance its program.
- Administration of rule changes
 - The amount of paperwork has increased, but the charity has been able to handle the increase.
 - The charity has not experienced any reluctance from donors when requesting Social Security numbers. The charity explains the need for the numbers in the letter sent to the donors.
 - Although IRS publications and notices have been generally clear, the officials were confused about the correct timing for sending the acknowledgments to the donors, questioning if it was 30 days from receipt of the vehicle or 30 days from when the charity evaluated the vehicle.
 - Donors are asking more questions; however, the charity is now receiving fewer calls from donors who want to donate vehicles that need to go to the salvage yard.

Table 11: Charity G

Main purpose or mission	To provide job training and employment services to people with disadvantages and disabilities		
Charity is independent or affiliated with a national charity	Affiliated		
Operate vehicle donation program independently or as part of a program operated by the national charity	Independent		
Operate vehicle donation program in-house or use a third party	Contractor		
Types of vehicles accepted	Passenger cars, trucks, motorcycles, recreational vehicles/campers, boats, lawnmowers, all-terrain vehicles		
Condition of vehicles accepted	Any condition		
What is done with vehicles	Virtually all vehicles are sold		
Charity is able to use an exception to the gross proceeds of sale rule	No		
Recent vehicle donation statistics			
Calendar year	Number of vehicles donated	Net revenue for donated vehicles	Total charity revenue (vehicle and nonvehicle)
2002	^a	^a	^a
2003	631	\$300,839	\$20,000,000
2004	478	301,901	21,000,000
2005	384	198,114	25,000,000
2006	288	153,632	28,000,000
2007 (through 9/31/07)	357	180,000	26,000,000

Source: The charity's senior vice president for marketing and communications.

^aCharity official did not provide this information.

Effects of rule changes reported by charity:

- Number and quality of vehicles donated
 - The quantity and quality of vehicles have decreased. The number decreased because donors are not able to receive fair market value for their donations.
 - Even though the number of vehicles donated in 2007 increased compared to 2006, more of the vehicles need to be sent to salvage yards.
- Revenue
 - Net revenue from vehicle donations decreased.
 - The vehicle donation program contributes only a small part to the charity's overall revenue.
- Business operations

- The charity recently changed its business operations from operating the program in-house to contracting with a third party. Officials decided to use a third-party contractor because it was not cost-effective to operate in-house because of the decrease in donated vehicles.
- Administration of rule changes
 - Administrative burden has increased because it takes time to complete the Form 1098-C and to prepare the acknowledgments that are sent to the donors. Furthermore, the charity has to keep track of each sale in order to provide donors with the required information about the sale of the vehicle. However, the charity official noted it was able to handle the increase in paperwork.
 - Donors were asking more questions about the rule changes in the first 6 months after the change. Now, most people understand the rule changes.

Appendix VI: Detailed Descriptions of Charities

Table 12: Charity H

Main purpose or mission	To prevent kidney and urinary tract diseases, improve the health and well-being of individuals and families affected by these diseases, and increase the availability of all organs for transplantation
Charity is independent or affiliated with a national charity	National office of charity
Operate vehicle donation program independently or as part of a program operated by the national charity	National office of charity
Operate vehicle donation program in-house or use a third party	Third-party contractors manage donor calls, pick-ups, and selling of vehicles; about 55 percent of the charity's affiliates use these contractors while the other 45 percent do not use the contractors or only use some of the services provided by the contractors (in these cases, the affiliates determine whether to operate the program in-house or use contractors)
Types of vehicles accepted	Passenger cars, trucks, motorcycles, recreational vehicles/campers, boats
Condition of vehicles accepted	Any condition
What is done with vehicles	All vehicles are sold
Charity is able to use an exception to the gross proceeds of sale rule	No

Recent vehicle donation statistics^a

Fiscal year (July 1 – June 30)	Number of vehicles donated	Gross revenue for donated vehicles ^b	Total charity revenue (vehicle and nonvehicle)
2002	c	c	c
2003	76,765	\$17,692,561	\$52,318,965
2004	81,470	18,975,596	55,518,850
2005	70,738	18,160,346	55,972,463
2006	39,501	10,608,827	57,283,499
2007 (through 8/31/07)	c	c	c

Source: The director of the charity's vehicle program.

^aThe statistics represent local and state affiliates that use the national vehicle donation program. Not all local and state affiliates choose to use the national program.

^bThe dollar amounts for this charity are gross revenues.

^cCharity official did not provide this information.

Effects of rule changes reported by charity:

- Number and quality of vehicles donated
 - The number of vehicles donated decreased.
 - The quality of donated vehicles has remained constant. However, in 2007, the charity was receiving about \$130 more per vehicle because of an increase in the value of steel and a decrease in fees associated with the auctioning of vehicles.

- Revenue
 - Revenue from donated vehicles as a percentage of gross income has decreased from almost 34 percent in 2003 to less than 19 percent in 2006. Total charity revenues increased because of changes in other fund-raising activities.
 - The charity increased other revenue-producing activities, such as charity walks, golf tournaments, and other special events, to help offset the revenue losses from decreased vehicle donations.
 - The reduced revenue from vehicle donations has affected some local affiliates and led to reductions in staff and some office closures.
- Business operations
 - The charity changed its marketing for vehicle donations and shifted the focus more to the Internet. More donations are occurring from online donors.
 - There is more competition from other charities; therefore more money is now being spent on marketing the program.
 - Because of the increase in the price of steel, the charity now sells a higher percentage of vehicles at auction instead of sending some to scrap yards.
- Administrative burden
 - Administrative burden has increased, specifically with regard to donors not wanting to provide Social Security numbers over the telephone.
 - Based on a survey the charity conducted, donors prefer to provide their Social Security numbers in writing rather than over the telephone. This results in more work for staff.
 - Generally the IRS publications and notices have been clear. Some affiliates thought the instructions for electronic filing could be made clearer.
 - Generally, donors are asking fewer questions about the donation process than they were right after the rule changes took affect.
- Other
 - More vehicles are sent to auction because the price of steel has increased, which helps ensure that the charity receives more revenue per vehicle than if the vehicle was sent to the scrap yard. However, there are also increased fees associated with auctioning vehicles versus sending them to scrap yards, so this decreases the profit ratio.

Appendix VI: Detailed Descriptions of Charities

Table 13: Charity I

Main purpose or mission	To provide services for at-risk children and families
Charity is independent or affiliated with a national charity	Independent
Operate vehicle donation program independently or as part of a program operated by the national charity	Independent
Operate vehicle donation program in-house or use a third party	Third-party contractor manages some donor calls, some vehicle pick-ups, and the selling of vehicles
Types of vehicles accepted	Passenger cars, trucks, motorcycles, recreational vehicles/campers, boats, forklifts, tractors
Condition of vehicles accepted	Any condition unless the cost to tow the vehicle is more than the scrap value of the metal
What is done with vehicles	Vehicles are sold, repaired and sold, or sold for the value of their metal
Charity is able to use an exception to the gross proceeds of sale rule	Yes, for the vehicles that are repaired and sold
Recent vehicle donation statistics	

Calendar year	Number of vehicles donated	Gross revenue for donated vehicles ^a	Total charity revenue (vehicle and nonvehicle)
2002	1,712	^b	^c
2003	1,719	^b	^c
2004	1,267	^b	^c
2005	1,204	^b	^c
2006	1,229	\$231,895	^c
2007 (through 8/31/07)	618	177,768	\$852,745

Source: The charity's business development director.

^aThe dollar amounts for this charity are gross revenues.

^bGross revenues are estimated at from \$300,000 to \$350,000.

^cCharity official did not provide this information.

Effects of rule changes reported by charity:

- **Number and quality of vehicles donated**
 - The charity received fewer donated vehicles. This may be in part because of the rule changes and in part because of an increase in competition for the donated vehicles.
 - The quality of the vehicles has decreased. For example, in 2006 the charity spent about \$156,000 on parts in order to repair donated vehicles, which is more than it spent in previous years. This may be because of potential donors selling or trading higher-value vehicles instead of donating them because they can get more money for the vehicles.

- Revenue
 - The revenue from donated vehicles has decreased since the rules changed.
- Business operations
 - The charity is licensed as a used car dealer and was also licensed as a used car dealer prior to the rule changes. The charity sells about 45 percent of donated vehicles at retail prices.
 - Most of the vehicle donation revenues are from the vehicles sold at a used car lot. The charity makes repairs to some of these vehicles before selling them. As a result, some vehicles are eligible for the material improvement exception, and the donors can claim fair market value. The other vehicles are sold to a wholesaler or to salvage yards for the value of the metal.
- Administration of rule changes
 - Administrative burden has increased because of the notification and filing requirements.
 - Some donors have not wanted to provide their Social Security numbers.
 - The IRS publications and guidance are clear.
 - The charity received a lot of questions about the changes to the rules in 2005, but now donors are not asking as many questions.
- Other
 - The charity does not have any plans to eliminate the vehicle donation program. Even though it now receives fewer vehicles and lower-quality vehicles, it believes that the program is still worth operating. This is in part because of the flexibility in how the charity can use the revenues from the vehicle donation program. It uses the revenues from the vehicle donation program to pay for services that are not covered by federal grants.

Table 14: Charity J

Main purpose or mission	To repair and sell cars to low-income people		
Charity is independent or affiliated with a national charity	Independent		
Operate vehicle donation program independently or as part of a program operated by the national charity	Independent		
Operate vehicle donation program in-house or use a third party	In-house operations but occasionally use outside garages to repair some of the vehicles		
Types of vehicles accepted	Passenger cars, trucks, motorcycles, boats, vans		
Condition of vehicles accepted	Any condition		
What is done with vehicles	75 percent are sold 25 percent are sold to low-income families		
Charity is able to use an exception to the gross proceeds of sale rule	Yes, for the 25 percent of cars sold to low-income families and for the 5 percent of vehicles to which the charity makes material improvements		
Recent vehicle donation statistics			
Calendar year	Number of vehicles donated	Net revenue for donated vehicles	Total charity revenue (vehicle and nonvehicle)
2002	2,235	\$566,579	\$832,121
2003	2,362	805,493	1,268,297
2004	1,985	883,265	1,444,937
2005	1,425	860,553	1,245,364
2006	1,754	1,775,613	2,088,309
2007 (through 8/31/07)	1,229	1,290,503	1,640,548

Source: The charity's president.

Effects of rule changes reported by charity:

- Number and quality of vehicles donated
 - The number of vehicles donated decreased; however, the quality of the individual vehicles has increased. The number of vehicles donated that could be sold to low-income individuals or families has about doubled since the changes in the rules.
- Revenue
 - The charity has doubled revenues from the vehicle donation program since it started operating a used car lot at the end of 2005.
- Business operations
 - The charity sells vehicles to low-income families for low amounts generally in the range of \$900 to \$1,100. Recipients of the vehicles must be sponsored by a social service agency and live in certain geographic areas. The charity operated in the same manner prior to the rule change.
 - The charity receives a higher dollar figure per vehicle than many of the other large charities receive because it sets a minimum value on all of

the vehicles sent to wholesale auction. At auction, if a vehicle does not receive a bid equal to or greater than the minimum, it is not sold and the charity will try to sell it again at another auction. This ensures that the sale of the vehicle will bring in more revenue.

- The charity began operating a used car lot at the end of 2005.
- Administration of rule changes
 - Administrative burden has increased because of the reporting requirements.
 - About 1 in 20 donors do not want to provide their Social Security numbers.
 - IRS guidance is fairly clear; however the charity was disappointed by the lack of publicity for the use of the exceptions to the gross proceeds of sale rule. Because of this, the charity had to advertise the exceptions and explain that donors may be able to claim greater deductions if they donate their vehicles to it rather than to another charity. After this, the number of donated vehicles began to increase.
 - The charity receives more questions from donors, mostly relating to how much can be claimed on donors' tax returns.

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