



VEHICLE DONATIONS

Selected Charities Reported Mixed Experiences after Changes in Vehicle Donation Rules

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 fund-raising 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.