



U.S. SENATE COMMITTEE ON

# Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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## Grassley Advances Crackdown on Car, Intellectual Property Donation Abuses

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, today won near-final approval of his reforms to make sure taxpayers don't inflate deductions for donations of cars and intellectual property to charity. Grassley's committee has documented substantial abuse in these areas.

"There's a real problem with some taxpayers vastly over-estimating the value of their cars and taking charitable deductions they haven't earned," Grassley said. "The same is true for intellectual property donations. My reforms on car donations won't mean a dime less for charities and won't cause any additional paperwork burden on taxpayers. At the same time, the changes make sure taxpayers in general aren't subsidizing the inflated deductions of others. That's only fair."

Grassley was the lead Senate negotiator working on a House-Senate conference committee to reconcile differences between each chamber's manufacturing tax and trade bill. Today, the conference committee is close to finishing its work. By 5 p.m., the conferees will finish voting on the final conference report. If they approve it, as expected, their action will clear the conference report for consideration in each chamber later this week. Grassley secured the following items in the conference report, which can't be amended:

**Car donations.** Grassley's proposal will ensure there is no additional burden on individuals donating a car, unlike other proposals that require a costly and time-consuming appraisal. Grassley's proposal will not reduce by a dime the amount that goes to a charity. The paperwork burden on charities is limited. It applies only to cars worth more than \$500. Under current law, charities must send a notice of receipt to taxpayers after a car donation. The Grassley provision requires charities to add one line in their notice of receipt to taxpayers stating how much the car sold for at auction.

"Without any hassle, the taxpayer can still donate his 1985 Pacer that goes only in reverse, and the charity will get the same amount of money it always gets," Grassley said. "The only difference is the taxpayer can't claim \$5,000 for the car that will sell at auction for \$50."

Grassley said his common-sense reforms will go a long way toward ending the abuses in car donations that have been documented by the General Accounting Office in a report requested

by the Finance Committee, in testimony before the Finance Committee, and in newspapers. On Monday, The Wall Street Journal had a front-page story about cars donated in California ending up helping Mexican smugglers. One taxpayer donated her 1991 Chevy Cavalier with 194,000 miles on it to charity and took a \$1,500 tax deduction. The car sold for \$350 at auction and went to a Tijuana-based smuggling operation.

**Donations of patents and other intellectual property.** Grassley praised the conference committee's acceptance of a provision even stronger than his to rein in the amount of value that taxpayers can claim for their donation of intellectual property such as patents to charities and foundations. Grassley and others have expressed concern about abusive inflated valuations of such items.

The proposal provides that if a taxpayer contributes a patent or other intellectual property to a charitable organization, the taxpayer's initial charitable deduction is limited to the lesser of the taxpayer's basis in the contributed property or the fair market value of the property. In addition, the taxpayer is permitted to deduct, as a charitable deduction, certain additional amounts in the year of contribution or in subsequent taxable years based on a specified percentage of the qualified donee income received or accrued by the charitable donee with respect to the contributed property. This means a taxpayer won't be able to claim deductions for donations that don't earn money for the charity.

Grassley, along with Sen. Max Baucus, ranking member, plans to continue reviewing legislative proposals to curb a wide range of abuses in the charitable arena, including charities used as tax shelters for corporations and charitable board members steering business to their private firms. The senators are considering an 19-page staff discussion draft of proposed legislative reforms, released at their June hearing on charitable abuses. The discussion draft is available at [finance.senate.gov](http://finance.senate.gov) under "hearings," June 22, 2004.