

CAR DONATIONS LOSE VALUE UNLESS....

The Treasury Department and The Internal Revenue Service (IRS) on June 3, 2005, released guidance on the charitable deductions for donated vehicles. The American Jobs Creation Act (AJCA) included a new provision restricting the deductible amount allowed for cars donated to charities. The new bill allows donors to deduct only the amount received from the sale of the car donated with two specific exceptions. A large number of potential car donors are disposing of their vehicles and no longer donating them due to the misconception that they can no longer deduct the fair market value of their donation.

The Treasury Department and IRS in a press release dated June 3, 2005 stated, “The AJCA also allows a donor to claim a fair market value deduction if the charity makes a material improvement to the vehicle. Under the guidance, a material improvement means major repairs that significantly increase the value of a vehicle, and not mere painting or cleaning.”

The guidance announced today also provides an additional exception to the sale price limit that was not included in the AJCA. Today's guidance permits a donor to claim a deduction for the fair market value of a donated vehicle “ **if the charity gives or sells the vehicle at a significantly below-market price to a needy individual, as long as the transfer furthers the charitable purpose of helping a poor person in need of a means of transportation.** “

Most non-profits accepting car donations in Maryland and Virginia sell the donated cars at wholesale auctions. Under the new bill, donors can deduct only the amount for which the car is sold. This donation results in a deduction amounting to a fraction of the fair market value.

Vehicles for Change meets the exception requirements as it repairs and provides donated cars to low-income families for employment purposes. Vehicles for Change has awarded over 1500 cars to families in need over the past five years. Martin Schwartz, President of Vehicles for Change, states, “Car donations are down fifty percent from last year due to the misunderstanding that a donor can no longer claim the fair market value of his donated car. It has significantly limited our ability to assist these worthy families.”

The difference between the fair market value and the “auction sales value” can be as much as \$3500. Donors wishing to maximize their tax deduction should donate to a charity that provides cars to low-income families such as Vehicles for Change. Vehicles for Change can be found at www.vehiclesforchange.org.

Martin Schwartz, President, Vehicles for Change