

Introduction

Donating a vehicle, including cars, trucks, motorcycles, airplanes and boats, can be a generous way to support a cause while also securing a tax benefit. For individuals with tangible assets like a car collection or those looking to manage inherited vehicles, a donation of a vehicle could be a practical option. While these gifts can provide significant benefits to all parties, nonprofits and professional advisors should be aware of the best ways to structure the donations to maximize benefits for donors. This article will discuss the classification of vehicles and the Internal Revenue Service (IRS) rules regarding vehicle donations including their substantiation requirements.

Tangible Personal Property

Motor vehicles are considered tangible personal property (TPP), which refers to movable physical items. When donating TPP to a nonprofit, the deduction will depend on whether the organization's use of the property is related to the nonprofit's exempt purpose. In general, when donating TPP for unrelated use, a donor may deduct only the cost basis in the donated property, subject to a 50% deduction limit. If TPP is donated to a nonprofit that uses the property in a manner related to its exempt purpose, then the transfer is for a related use which allows the donor to deduct the fair market value of the property subject to a 30% deduction limit. Reg. 1.170A-4(b)(3)(ii).

If a nonprofit intends to use the donated TPP for a related purpose, the nonprofit must confirm the related use in a letter. For donations of over \$5,000, an independent qualified appraisal is also required. Misrepresenting the related use may result in a \$5,000 penalty under Sec. 6702b.

TPP Classification

To determine the appropriate deduction, it is important to consider how the asset's classification impacts its tax treatment. Disposition of TPP assets typically produces long-term capital gain or ordinary income. Long-term gain assets are those held by a donor for more than one year and can be deducted at fair market value provided they are used in a manner related to the nonprofit's exempt purpose. Ordinary income assets, such as inventory, are assets that generate ordinary income when sold and would be deductible on a cost basis, even if the contribution is for a related use. Sec. 170(e). For dealers who actively engage in the trade or business of selling that type of asset, ordinary gain assets are deducted on a cost basis as they are considered ordinary property in the hands of the dealer.

Additional Rules on Vehicle Donations

While vehicles are considered TPP, they depreciate in value over time and their cost basis would likely be much higher than their current market value. As a result, the related and unrelated use rules of TPP for vehicle donations are adjusted with additional parameters.

The American Jobs Creation Act of 2004 established guidelines for donating qualified vehicles. Under the Act, a qualified vehicle is any motor vehicle that is manufactured for use on public streets, roads and highways, as well as boats and airplanes. A vehicle owned by a donor primarily

for sale to customers, such as inventory held by a car dealer, is not a qualified vehicle and can only be deducted at the donor's cost basis. Sec. 170(f)(12)(E).

The contribution of a vehicle falls into two main categories, which align with the general rules for related and unrelated use of TPP: the "sale" category and the "hold" category. These additional rules were introduced to prevent donors from claiming inflated deductions based on Blue Book values rather than what nonprofits received from the sale. Prior to 2004, donors could deduct the fair market value, regardless of the sale price. Since many nonprofits choose to use auctions to dispose of vehicles, this often resulted in higher tax benefits to the donor than the nonprofit's actual proceeds.

Sale Category

In the sale category, if the nonprofit organization sells the vehicle after contribution without any significant intervening use, the donor's deduction is limited to the lesser of the vehicle's fair market value at the time of the donation or the gross sale proceeds. Additionally, if the vehicle sells for \$500 or less, the donor can deduct lesser of the fair market value or \$500. If the vehicle's fair market value on the date of contribution is more than the cost basis, donors may need to reduce the fair market value by the amount of appreciation when calculating the deduction.

Example A Olivia inherited a truck from her grandfather who was passionate about helping those in need. Her grandfather spent years volunteering at local shelters and used his truck for tasks such as hauling donations to shelters and picking up supplies for those in need. The truck is about 15 years old but still in fair shape. Wanting to honor his legacy, Olivia decided to donate the truck to a nonprofit that provides food and shelter for the homeless. At the time of her donation, the truck's Blue Book value was \$5,000.

The nonprofit was grateful for her generous gift and decided to sell the truck at auction to raise funds for its outreach programs. The truck ultimately sold for \$4,000. Since the IRS limits her charitable deduction to the lesser of the fair market value or the sale price, Olivia can deduct \$4,000 on her tax return.

Hold Category

In the hold category, the nonprofit holds on to the vehicle for its own use, significantly improves it or provides it to a needy individual at below market value as part of its charitable purpose. The donor may deduct the fair market value of the vehicle, generally subject to 50% of the donor's adjusted gross income (AGI). If the entire deduction cannot be used in one year, the excess amount may be carried forward for up to five years.

If the charity initially acknowledges that it will use the vehicle but later disposes of it within three years, the donor may face a recapture of the charitable deduction more than the cost basis. In such cases, Form 8282, Part IV must be completed and signed by an officer of the organization under penalty of perjury. The organization must certify that either the vehicle was used in a substantial and related manner to the organization's purpose, or its intended use became

impossible. If this certification is not included, any portion of the donor's charitable deduction more than the cost basis will be recaptured on the tax return for the year in which the organization disposed of the vehicle.

Example B Levi has always been passionate about cars. He spent decades running his own mechanic shop, fixing up vehicles and mentoring young apprentices who wanted to learn the trade. Over the years, he believed that hands-on experience was the best way to teach the next generation of mechanics.

When Levi decided to retire, he wanted to give back in a meaningful way. He owned a classic car—one he had personally worked on and kept in great shape. Rather than selling it, he chose to donate it to a local technical school that trains students in automotive repair. At the time of the donation, the car's fair market value was \$15,000. Levi hired a qualified appraiser to confirm the value.

Because the school kept the car for its educational program, Levi is eligible to deduct the full fair market value of \$15,000 on his tax return. Had the school accepted the car but later sold it within three years, they would have been required to file Form 8282 with the IRS to report the sale. However, since the vehicle is actively being used for student training, Levi's full deduction remains valid.

Calculating Fair Market Value

Generally, donors are required to obtain a qualified appraisal for charitable contributions that exceed \$5,000 in value. However, if the nonprofit sells the vehicle and the deduction is limited to the gross proceeds from the sale, an appraisal is not necessary. For vehicle contributions with value less than \$5,000 in the "hold" category, the fair market value of the vehicle must be calculated.

Donors claiming a deduction of less than \$5,000 may use a vehicle pricing guide, often called Blue Books, to calculate the fair market value. This ensures that the value calculated for the vehicle matches the vehicle's make, model, year and condition and does not exceed the price listed for a private-party sale. For donors claiming a deduction of more than \$5,000 (not limited to gross sale proceeds), a qualified appraisal is required to determine the fair market value of the vehicle. The requirements for a qualified appraisal, including timing and appraiser qualifications, will be discussed in the Substantiation section.

Substantiation

A contemporaneous written acknowledgment (CWA) must be provided by the nonprofit organization if the donor is claiming a charitable deduction of more than \$250. The nonprofit may use Form 1098-C, Contributions of Motor Vehicles, Boats, and Airplanes, as the CWA. This form covers the basic acknowledgment requirements, including the vehicle's identification details and confirms the nonprofit's intended use of the vehicle. If the nonprofit uses Form 1098-C, the nonprofit will also include the specific details regarding the nonprofit's intended use. The

CWA must be obtained within 30 days of the vehicle's sale or 30 days from the date of donation if the vehicle is held.

Form 1098-C is required for the donor to be able to claim the charitable contribution as an income tax deduction and it cannot be completed until the property is sold by the nonprofit organization. If the filing deadline is approaching and the vehicle has not been sold yet, the donor has choices — request an automatic six month extension to file the income tax return on the year in which the vehicle donation is to be claimed or file the tax return on time without claiming the charitable deduction and then amend the return to claim the deduction once the Form 1098-C is available. The donor and his or her advisor should determine which is the better option. Typically, vehicle sales occur quickly when there is not a significant intervening use. Nonprofits should communicate with donors to ensure that this understanding is conveyed.

For vehicles with a deduction value of more than \$500, donors must complete Section A in Form 8283 and attach a copy of the nonprofit's CWA to their return. If the vehicle is valued over \$5,000, Section B in Form 8283 must be filled out.

If the deduction value of the vehicle is at least \$250 but not over \$500, the donor needs to obtain only a written acknowledgment from the nonprofit, stating that no goods or services were provided in exchange. The CWA must be provided on or before the date that the donor filed their return for the year, including extensions. A nonprofit can provide a donor with a paper copy of the acknowledgment, or it can provide the acknowledgment electronically via email. Donors should not attach the acknowledgment to their tax return. Instead, they should hold on to it for their records as proof of substantiation.

Qualified Appraisal

For donors claiming a deduction of more than \$5,000 that is not limited to gross proceeds, a qualified appraisal must be conducted no more than 60 days before the donor gifts the vehicle and no later than the due date of the donor's tax return, including extensions. Reg. 1.170A-17(a)(4).

A qualified appraisal must be performed by a qualified appraiser, which is someone with verified education and experience in valuing the specific type of property being appraised. The appraiser must either hold a recognized appraisal designation or meet minimum education and experience requirements. Additionally, the appraiser must regularly perform paid appraisals, cannot be disqualified and must declare his or her qualifications in the appraisal. Reg. 1.170A-17(a). For boats, except for inexpensive small ones, valuation should be determined through an appraisal by a marine surveyor, as a boat's physical condition significantly affects its value.

CWA Statement Variations

For vehicles worth over \$500, the CWA should include the donor's name and tax identification number, the vehicle identification number and the date of contribution. Depending on the circumstances, the CWA must also state that no goods or services were provided in exchange for the donation. If applicable, the CWA should also include a description of the vehicle (excluding

its value), detailing the condition of the vehicle and a good faith estimate of the value of any goods or services the nonprofit provided in return for the vehicle, or a statement indicating that any goods or services received were solely intangible religious benefits. If the acknowledgment does not include all the required and applicable information, the donor may not deduct more than \$500.

In addition to these basic requirements, the details included in the CWA will vary depending on what the nonprofit intends to do with the vehicle. For example, when nonprofits intend to sell the vehicle, the CWA must include a statement certifying that the vehicle was sold in an arm's length transaction between unrelated parties, the date the vehicle was sold, the gross proceeds of the sale and that the deduction will not exceed the gross proceeds of the sale.

If a nonprofit has a significant intervening use of the donated vehicle that is related to its charitable mission, the CWA must include a statement confirming this intention, a description of how the vehicle will be used, the duration of the use and a certification that the vehicle will not be sold before the use is complete. Significant intervening use means that the charity plans or is using the vehicle in a way that substantially furthers its activities, and the use must be considerable, not incidental. If the nonprofit has a change in plans and disposes of the vehicle within three years of its contribution, the donor may be subject to recapture on the excess charitable deduction, unless the nonprofit provides additional information explaining why the significant intervening use did not occur.

If a nonprofit plans to make a material improvement to the vehicle that results in a significant increase in the vehicle's value, the acknowledgment must also confirm this intention, describe the improvement and certify that the vehicle will not be sold before the work is completed. Material improvements would not include minor repairs or routine maintenance.

If a nonprofit plans to give or sell the vehicle to a needy individual at a price substantially below fair market value, the acknowledgment must confirm that the transaction furthers the charity's purpose of helping the underprivileged. Selling the vehicle at auction or using proceeds for general charitable purposes does not qualify as a sale to a needy individual or as a related use to the charitable purpose.

Conclusion

Donating a vehicle to charity can be a valuable way for donors to support nonprofit organizations and benefit from a tax deduction. However, advisors, donors and nonprofits should understand their responsibilities in the process and the documentation requirements. Proper classification, valuation and substantiation are essential to maximize the benefits of a donation while maintaining compliance with the IRS regulations.



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