

Donating your vehicle to charity may not be a taxwise decision

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You've probably seen or heard ads urging you to donate your car to charity. "Make a difference and receive tax savings," one organization states. But donating a vehicle may not result in a big tax deduction — or any deduction at all.

Trade in, sell or donate?

Let's say you're buying a new car and want to get rid of your old one. Among your options are trading in the vehicle to the dealer, selling it yourself or donating it to charity.

If you donate, the tax deduction depends on whether you itemize and what the charity does with the vehicle. For cars worth more than \$500, the deduction is the amount for which the charity actually sells the car, if it sells without materially improving it. (This limit includes vans, trucks, boats and airplanes.)

Because many charities wind up selling the cars they receive, your donation will probably be limited to the sale price. In addition, these sales are often at auction, or even salvage, and typically result in sales below the Kelley Blue Book® value. To further complicate matters, you won't know the amount of your deduction until the charity sells the car and reports the sale proceeds to you.

If the charity uses the car in its operations or materially improves it before selling, your deduction will be based on the car's fair market value at the time of the donation. In that case, fair market value is usually set according to the Blue Book listings.

In these cases, the IRS will accept the Blue Book value or another established used car pricing guide for a car that's the same make, model, and year, sold in the same area and in the same condition, as the car you donated. In some cases, this value may exceed the amount you could get on a sale.

However, if the car is in poor condition, needs substantial repairs or is unsafe to drive, and the pricing guide only lists prices for cars in average or better condition, the guide won't set the car's value for tax purposes. Instead, you must establish the car's market value by any reasonable method. Many used car guides show how to adjust value for items such as accessories or mileage.

You must itemize

In any case, you must itemize your deductions to get the tax benefit. You can't take a deduction for a car donation if you take the standard deduction. Under the Tax Cuts and Jobs Act, fewer people are itemizing because the law significantly increased the standard deduction amounts. So even if you donate a car to charity, you may not get any tax benefit, because you don't have enough itemized deductions.

If you do donate a vehicle and itemize, be careful to substantiate your deduction. Make sure the charity qualifies for tax deductions. If it sells the car, you'll need a written acknowledgment from the organization with your name, tax ID number, vehicle ID number, gross proceeds of sale and other information. The charity should provide you with this acknowledgment within 30 days of the sale.

If, instead, the charity uses (or materially improves) the car, the acknowledgment needs to certify the intended use (or improvement), along with other information. This acknowledgment should be provided within 30 days of the donation.

Consider all factors

Of course, a tax deduction isn't the only reason for donating a vehicle to charity. You may want to support a worthwhile organization. Or you may like the convenience of having a charity pick up a car at your home on short notice. But if you're donating to claim a tax deduction, make sure you understand all the ramifications. Please contact us if you have questions.

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