

Don't Get Taken for a Ride: Donating Your Vehicle to Charity



The Office of the
Minnesota Attorney General
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Donating a motor vehicle to charity has become a popular way to give, as it allows donors to both benefit a worthwhile charitable purpose and take a tax deduction on their tax returns. Not all charitable vehicle donations programs are alike, however, so it is important to do your homework before donating.

Following are suggestions on how to better understand the charity you are donating your car to, how your donation will be used to benefit a charitable cause, and whether and how much you can deduct on your taxes for a donated vehicle.

How Will the Charity Use Your Donation?

Charities typically do one of two things with a vehicle donation:

First, a charity may use the donated vehicle in its charitable program or distribute the vehicle to needy individuals. For example, a charity may use your vehicle to teach disadvantaged individuals how to repair cars or to deliver groceries to senior citizens. It may also give or sell your car at a steep discount to an economically disadvantaged person.

Second, the charity may sell your donated vehicle to the public or a junkyard and then use the proceeds from the sale to fund its charitable programs.

Before you donate, ask how your donated vehicle will be used. You should also ask about the mission of the charity, what goods and services it provides, and who it helps.

It is usually best to donate to organizations you know. Some charities that advertise heavily may use your donation for purposes which would surprise you, so it is important to ask questions before donating.

Who is Operating the Vehicle Donation Program?

Some charities operate their own car donation programs. Other charities, however, use for-profit fundraising companies to solicit vehicle donations and to sell or scrap your vehicle. In these instances, typically only a portion of the sales price goes to charity and the remainder is kept by the for-profit fundraising company as a fee or commission.

Under Minnesota law, a fundraising company is supposed to disclose its name and that the solicitation is being conducted by a fundraising company. If it does not, ask the person you are speaking with if they work for the charity or if they work for a fundraising company.

In other cases, a charity may solicit vehicle donations and only pay a portion of the proceeds to another charity. Here too, it is important to determine how much money ultimately goes to the charitable purpose and how much is spent on fundraising and overhead.

How Much of Your Donation Will Go To Charity?

The best way to find out how much of your vehicle donation will directly benefit a charity is to directly ask the charity or fundraiser. If the program plans to sell your vehicle to the public or a scrapyard, be sure to ask: "What percentage of the *gross* sales price will go directly to the charity and what percentage of the *gross* sales price will go to fundraising and overhead costs?" Be wary of charities and fundraisers that answer this question by telling you what percentage of the *net* sales price (vs. the *gross* sales price) goes to charity, because the *net* sales price excludes overhead and fundraising costs.

If a fundraising company is involved, then a portion—often a significant amount—of your donation will be paid to the company. In addition, fundraisers often spend significant amounts of money on advertising to solicit donors, and

your donation helps to fund these advertising costs as well. With some fundraiser-operated programs, as much as 80 percent of your donation may be consumed by fundraising and overhead costs, while just 20 percent goes to the charity.

You can check the accuracy of what the fundraiser tells you by calling the Minnesota Attorney General's Office at (651) 296-3353 (Twin Cities Calling Area) or (800) 657-3787 (Outside the Twin Cities). A fundraiser is not supposed to solicit donations in Minnesota, including vehicle donations, without registering with the Attorney General's Office. Fundraisers must file periodic financial reports that show what percentage of the funds they raised went to charity vs. fundraising costs/overhead. They must also file a copy of their contract with the charity that hired them that discloses an estimate of how much of your donation will go to charity vs. how much will be consumed by fundraising and overhead costs. You may review these documents online at the Attorney General's website, www.ag.state.mn.us, using the "Charities" drop down menu.

Have You Researched the Charity?

To make sure the maximum amount of your donation is going to a charitable purpose you support, consider donating to a charity with which you are personally familiar. Do your due diligence on any charity before you donate.

Most charities that solicit donations from the public must register with the Attorney General's Office. You should make sure the charity to which you want to donate your vehicle is registered and in good standing with the Attorney General's Office. You may do this online at the Attorney General's website, www.ag.state.mn.us, using the "Charities" drop down menu. Registration with the Attorney General, however, does not mean that the State has approved the organization or that it is worthy of your generosity.

Organizations such as GuideStar (guidestar.org) and ProPublica (projects.propublica.org/nonprofits) make charities' federal tax returns—called the IRS "Form 990"—available for free on their websites. The Form 990 will show you how much a charity receives each year in donations and how much it spends on overhead and other expenses.

You may also wish to check if one of these organizations has rated the charity:

Charities Review Council

1915 Highway 36 W, Suite 133
Roseville, Minnesota 55113
(651) 224-7030
www.smartgivers.org

BBB Wise Giving Alliance

3033 Wilson Boulevard, Suite 710
Arlington, VA 22201
(703) 247-9321
www.give.org

Can You Claim Your Donation as a Tax Deduction?

Generally, contributions to charities which are tax-exempt under section 501(c)(3) are eligible to receive tax-deductible contributions.

To find out if a charity is eligible to receive tax-exempt donations, check on the IRS's "Tax Exempt Organization Search" website, apps.irs.gov/app/eos/. This website lets donors search to see if their donation to a particular charity would be tax-exempt. You may also verify an organization's status by calling the IRS Customer Account Services for Tax Exempt and Government Entities at (877) 829-5500.

It is also important to remember that only taxpayers who file itemized tax returns may deduct their vehicle donation. On average, only 30 percent of taxpayers file itemized tax returns. This means that the other 70 percent of Americans may not take a deduction for their vehicle donation.

How Much Can You Claim as a Tax Deduction?

Some vehicle donation programs claim that they offer the "maximum tax deduction" or are "100% tax deductible." In fact, the amount you may deduct is set by federal law, not controlled by the charity.

The IRS has established different rules for how much you may deduct for a vehicle donation depending on the value of the vehicle and whether the charity will sell the car or if it will keep and use the car as part of its charitable programs.

If the Charity Auctions Off or Scraps Your Vehicle:

As noted above, some charities auction donated vehicles or sell them to scrapyards. If this is what your charity does with your vehicle, then these IRS rules apply:

For vehicles with a claimed value of \$500 or less, a taxpayer may deduct on his or her tax return the lesser of \$500 or the vehicle's fair market value. For example, if a vehicle has a fair market value of \$450, the donor's charitable contribution deduction may not exceed \$450.

For vehicles with a claimed value of \$500 or more, a taxpayer may only deduct on his or her tax return the lesser of the vehicle's fair market value or the gross proceeds the charity receives from the sale of the vehicle. For example, if a donated vehicle has a fair market value of \$900 but for whatever reason the charity receives only \$750 in gross proceeds from its sale, the donor's charitable contribution deduction may not exceed \$750.

If the charity sells your vehicle, it must give you a written acknowledgment of the donation and sales price within 30 days of the sale of your vehicle.

If the Charity Uses or Fixes Your Vehicle:

The charity may also do the following with your vehicle:

- Significantly use the vehicle in its charitable programs;
- Make material improvements to the vehicle; or
- Give or sell the vehicle to a needy individual at a price significantly below fair market value, in furtherance of the charity's charitable mission.

If the charity uses your vehicle in any of these ways, then you may claim the fair market value of your vehicle on your itemized tax returns. The written acknowledgement provided by the charity must contain a statement certifying that one of these uses applied to your donation.

How to Determine Fair Market Value:

The obligation for establishing fair market value rests with the donor. Dealer guides or "Blue Books" may provide a starting point, in that they summarize average prices for various model years and provide estimates for adjusting prices for condition, mileage, and other factors. IRS guidelines state that donors should use the private party value and not the dealer retail value listed in pricing guides. You may also wish to take photos of your vehicle, maintain copies of maintenance records, and research similar sales online or in the newspaper and keep these records to help support the amount you deduct. If the value of your vehicle is more than \$5,000, you also must obtain a qualified written appraisal of the automobile and attach an appraisal summary (IRS form 8283, section B) to your tax return.

Tax questions should be directed to the IRS. The Attorney General's Office cannot provide tax advice. More information on donating a vehicle to charity can be obtained from IRS publication 4303: "A Donor's Guide to Vehicle Donations." Information on determining the value of donated property and for claiming tax-deductible contributions may be obtained from IRS Publication 561: "Determining the Value of Donated Property" and IRS Publication 526: "Charitable Contributions." These publications are available by calling (800) 829-3676 or by visiting the IRS website at www.irs.gov.

Do You Need To Transfer Title To Your Vehicle?

Be sure that any charity to which you donate your vehicle transfers the title out of your name. If title is not properly transferred, state records will still reflect you as the owner. This can create all kinds of problems, such as tickets sent to you for violations even though you no longer own the vehicle. You should thus find out how the charity will handle the title transfer before donating your vehicle. Once it has been donated, you may also wish to follow-up with your local Driver and Motor Vehicle Services office to confirm that title has actually been transferred. Questions about state title requirements may be directed to the Minnesota Department of Public Safety, Driver and Motor Vehicle Services by calling (651) 297-2126.