

Highlights of [GAO-03-608T](#), testimony before the Senate Finance Committee.

**Why GAO Did This Study**

According to the Internal Revenue Service (IRS), charities are increasingly turning to vehicle donation programs as a fund-raising activity, resulting in increased solicitations for donated vehicles. Therefore, to make informed decisions about donating their vehicles, taxpayers should be aware of how vehicle donation programs operate, the role of fund-raisers and charities in the vehicle donation process, and IRS rules and regulations regarding allowable tax deductions. Due to the increased use of vehicle donation programs, GAO was asked to describe (1) the vehicle donation process, (2) the amount of proceeds received by charities and fund-raisers, (3) donor tax deductions, and (4) taxpayer cautions and guidance.

**What GAO Recommends**

GAO is not recommending executive action. However, based on guidance issued by the IRS and other sources, GAO identified several steps that taxpayers should take before donating their vehicles and claiming tax deductions. These steps include

- verifying that the recipient organization is tax-exempt,
- asking questions about vehicle donation proceeds,
- deducting only the fair market value of the vehicle, and
- following state laws regarding title transfer for vehicles.

[www.gao.gov/cgi-bin/getrpt?GAO-03-608T](http://www.gao.gov/cgi-bin/getrpt?GAO-03-608T).

To view the full testimony, click on the link above. For more information, contact Cathleen A. Berrick at (202) 512-3404, or [berrickc@gao.gov](mailto:berrickc@gao.gov).

**VEHICLE DONATIONS**

**Taxpayer Considerations When Donating Vehicles to Charities**

**What GAO Found**

Revenue from donated vehicles is a welcomed, and sometimes crucial, source of income for a number of charities. Donors, by following available guidance and making careful selection of charities for their donations, can provide charity support while benefiting themselves through tax deductions or disposing of unwanted vehicles.

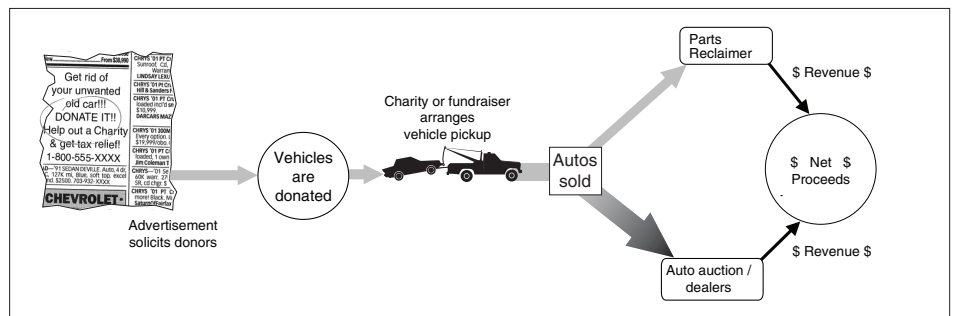
Taxpayers generally first learn about vehicle donation programs through advertisements. Interested donors call the advertised number and either reach a charity that operates its program in-house, or a third-party fundraiser acting on the charity's behalf. The charity or fund-raiser asks questions of the potential donor regarding the vehicle, and then collects and sells the vehicle for proceeds.

The proceeds a charity receives from a vehicle donation may be less than what a donor expects. Two factors contribute to this difference. First, charities often sell vehicles at auto auctions for wholesale prices rather than the prices donors may receive if they sold their vehicles themselves. Second, vehicle processing costs—whether the charity's or the fundraiser's—as well as the fund-raiser's portion of net proceeds further reduces the amount of proceeds a charity receives.

Of the 129 million individual returns filed for tax year 2000, an estimated 0.6 percent, or 733,000 returns, had tax deductions for vehicle donations. These deductions lowered taxpayers' income tax liability by an estimated \$654 million of the \$1 trillion tax liability reported on returns.

To assist donors in making decisions regarding vehicle donations, IRS and other organizations have issued guidance on steps potential donors should take before making vehicle donations. These steps include verifying that the recipient organization is tax-exempt, asking questions about vehicle donation proceeds, and deducting only the fair market value of the vehicle on tax returns.

**The Vehicle Donation Process**



Source: GAO.