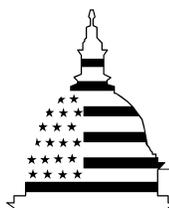


November 2003

VEHICLE DONATIONS

Benefits to Charities and Donors, but Limited Program Oversight

On December 19, 2003, the PDF file was revised to include a Web link to an audio version of a radio advertisement discussed in the report. The link to www.gao.gov was added to page 11.



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Contents

Letter		1
	Results in Brief	2
	Background	4
	Few Charities Reported Having Vehicle Donation Programs, and Small Percentage of Taxpayers Claim Deductions for Donated Vehicles	7
	Vehicle Donation Programs Varied for the Charities We Reviewed, but Most Used Third-Party Agents	10
	Charities Receive Less than Donors Claimed as the Value of the Vehicle for the 54 Donations We Reviewed	15
	IRS and States Compliance Activities Directed at Donated Vehicle Issues Have Identified Cases of Noncompliance	20
	Guidance Is Available to Donors and Charities Regarding Vehicle Donations	25
	Conclusion	27
	Recommendations for Executive Action	28
	Agency Comments and Our Evaluation	28
Appendix I	Objectives, Scope, and Methodology	30
Appendix II	Sample Claims of Vehicle Donation Advertisements	34
Appendix III	Selected Vehicle Donations Tracked from Donation to Taxpayer Claim for Charitable Deduction	37
Appendix IV	Vehicle Donation Guidance	39
Appendix V	Comments from the Internal Revenue Service	41
Appendix VI	Staff Acknowledgments	43
	Acknowledgments	43

Tables

Table 1: Examples of Organizations That Do or Do Not Qualify to Receive Deductible Charitable Contributions	4
Table 2: Data Sources Used to Address Objectives	30
Table 3: Vehicle Donation Claims Related to Tax Deductions (by medium)	36
Table 4: Vehicle Donations Tracked from Donation to Taxpayer Claim for Charitable Deduction—54 Vehicles	37
Table 5: Sources of Guidance in Making Vehicle Donation Decisions	39

Figures

Figure 1: States That Require Registration of Charitable Soliciting Organizations, Including the District of Columbia	6
Figure 2: Number of Sampled Charities Starting Vehicle Donation Programs from 1978-2002	8
Figure 3: Percentage of Dollar Amount of Deductions for Noncash Charitable Contributions over \$500 by Type of Contributions, Tax Year 2000	9
Figure 4: Vehicle Donation Process	10
Figure 5: Example of Vehicle Solicitation on a Truck	12
Figure 6: Some Charities Accept Vehicles in Poor Condition	13
Figure 7: Example of a Vehicle Donation	16
Figure 8: Charity Proceeds as a Percent of Donor Claims in 54 Selected Vehicle Donations	18
Figure 9: Most Common Claims in Newspaper, Radio, and Internet Advertisements Reviewed	34
Figure 10: Transcript of Actual Radio Advertisement for Vehicle Donations	36

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Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

November 14, 2003

The Honorable Charles Grassley
Chairman
The Honorable Max Baucus
Ranking Minority Member
Committee on Finance
United States Senate

Some charities are turning to vehicle donation programs as a means for raising funds. While these donations create an important source of revenue for a number of charities, questions have arisen regarding the role third-party agents¹ play in the vehicle donation process, as well as the amount of proceeds that are actually received by charities from vehicle donations. Others have asked whether taxpayers know enough about vehicle donation programs to make informed decisions about donating their vehicles, and are claiming appropriate tax deductions.

Given these questions, this report expands on our preliminary observations on vehicle donation programs in our April 1, 2003, testimony before the Senate Finance Committee² and discusses (1) the number of charities with vehicle donation programs and the number of taxpayers claiming deductions for vehicle donations; (2) the vehicle donation process; (3) proceeds received by charities from vehicle donations compared to what donors claim for vehicle donation deductions; (4) Internal Revenue Service (IRS) and state compliance activities directed at vehicle donations, and the results of these activities; and (5) guidance available to taxpayers and charities to help them make informed decisions regarding vehicle donations.

To satisfy these objectives, we relied on two sources of nationally representative information and several anecdotal sources of information. To determine the number of charities that have vehicle donation

¹Third-party agents refer to commercial fund-raisers, vendors, and not-for-profit organizations that solicit and perform vehicle donation processing activities on behalf of charities.

²U.S. General Accounting Office, *Vehicle Donations: Taxpayer Considerations When Donating Vehicles to Charities*, [GAO-03-608T](#) (Washington, D.C.: Apr. 2003).

programs, we conducted a national telephone survey of a statistically representative sample of charities. Second, to determine how many taxpayers claimed vehicle donation deductions, we analyzed a statistically representative sample of tax year 2000 tax returns (the latest data then available). We also obtained anecdotal information on compliance activities from officials at the IRS and 11 state attorneys general and secretary of state offices, and information on vehicle donation operations from a pool of 65 charities, six third-party agents, and related interest groups. Finally, we tracked a judgmental sample of 54 donated vehicles to compare the amount of proceeds charities received from vehicle sales and the amount claimed as deductions on donors' tax returns. Appendix I contains a detailed description of our objectives, scope, and methodology. Our work was conducted between October 2002 and October 2003 in accordance with generally accepted government auditing standards.

Results in Brief

An estimated 4,300 U.S. charities with an annual revenue of \$100,000 or more are operating vehicle donation programs, or less than 3 percent of the 157,500 charities with income at or exceeding this level. Based on our estimates, tax deductions for donated vehicles were claimed on about 733,000 tax returns for tax year 2000, or an estimated 0.6 percent of the 129 million individual returns filed that year. These deductions lowered taxpayers' income tax liability by an estimated \$654 million.

The vehicle donation process generally involves four steps: (1) advertising and fielding donors telephone calls regarding donating their vehicles; (2) taking possession of vehicles, usually by tow truck; (3) disposing of vehicles, most often through auto auctions; and (4) distributing the proceeds from vehicle sales between charities and organizations involved in the process. Some charities operate their vehicle donation programs in-house; however, most of the charities we interviewed relied on third-party agents to conduct some or all components of their programs for a share of the proceeds from vehicle sales.

The proceeds received by charities from vehicle donations were 5 percent or less of the value donors claimed as a deduction on their tax returns for the majority of the 54 vehicle donations we tracked. Based on discussions with charities and third-party agents, we identified two factors that contributed to this difference. First, donated vehicles are often sold at auctions for wholesale prices rather than at the price a donor might expect if selling the vehicle to a private party. Second, vehicle processing and fund-raising costs are subtracted from gross vehicle sales revenue, further reducing the proceeds charities receive from vehicle sales. We could not

determine whether individuals claiming deductions for donated vehicles accurately assessed the fair market value of their vehicle due to a lack of available data on the condition of the vehicles donated.

IRS and states compliance activities directed at donated vehicles issues have been limited. IRS has one compliance program that generates audit leads on taxpayers that may have overstated their tax deductions for noncash contributions, which include vehicle donations, but due to higher priority compliance demands, IRS has not audited any of the leads during the last 2 fiscal years. Also, IRS data on its returns processing procedures for disallowing deductions for inappropriately claimed noncash contributions on returns with relatively high deductions show that few deductions are disallowed. The IRS may be able to assess compliance problems associated with noncash deductions, including donated vehicles, with information it obtains from audits being conducted as part of its National Research Program. An IRS donated property task force developed recommendations, which could lead to better oversight of charities' donation programs, such as recording and retaining charities' donated property disposal forms to determine whether charities filed the forms and whether the forms are accurate. In addition, several of the officials we contacted in 11 states said they uncovered problems with vehicle donation programs, including an instance in which an organization posed as a charity to receive donations, a third-party agent inappropriately kept vehicle donation proceeds, and individuals solicited vehicle donations for fictitious charities.

The IRS, state officials, and other organizations we contacted have provided guidance to taxpayers and charities to help them donate or accept vehicles. Guidance to taxpayers has included such things as helping them identify legitimate, well-run charities; avoid personal liability for their donated vehicles; claim appropriate tax deductions; and protect themselves from fraudulent marketing solicitations. Guidance to charities helps charities select and manage professional fund-raisers and suggested documentation to maintain for donated vehicles.

We are recommending that IRS assess the merits of its program for generating audit leads on taxpayers that may have overstated their noncash charitable contributions, and whether forms charities submit when disposing of donated property should be recorded and retained. IRS agreed with our recommendations and stated that decisions on actions to be taken will depend on the results of its review of the level of noncompliance in reporting noncash contributions.

Background

The tax code allows individuals and businesses to make noncash contributions (e.g., vehicles, paintings, used clothing, and household goods) to qualifying charities by allowing taxpayers to claim deductions for their donations on their tax returns. However, not all organizations are granted nonprofit or tax-exempt status by the IRS that qualifies taxpayers for tax deductions for items donated to them. Table 1 provides examples of organizations that do and do not qualify donors for noncash deductions, including vehicle donations.

Table 1: Examples of Organizations That Do or Do Not Qualify to Receive Deductible Charitable Contributions

Qualified for tax deductions	Not qualified for tax deductions
Charitable organizations (e.g. religious, educational, scientific, charitable literary, cruelty prevention, and some amateur sports competitions)	Civic leagues, social welfare organizations, and local employee associations
Federal, state, and local governments	Political groups or candidates
Domestic fraternal societies and war veterans' groups	Labor, agricultural, or horticultural organizations
Certain nonprofit cemetery groups	Social and recreational clubs
Childcare organizations	Farmer's Cooperative associations

Source: Adapted from IRS Publication 557 Tax Exempt Status for Your Organization, July 2001.

IRS guidance instructs donors to establish the value for their donation based on its “fair market value” for donated vehicles, that is, what the item would sell for on the market, taking into account its condition, including mileage in the case of vehicle donations. As is the case for all noncash contributions, the IRS does not require donors to obtain an independent appraisal for a vehicle’s value unless they claim over \$5,000 for the donated property. IRS guidance suggests that donors use used car guides, comparable sales, and other sources to assist in establishing the fair market value for their donated vehicles.

Regulatory oversight over charities and their vehicle donation programs is diffused, shared between the IRS and state agencies. The IRS decides which charities are granted nonprofit status and whether the charity meets tax-exempt requirements and complies with federal laws. Many states

require charities soliciting within the states to register³ with the state attorney general's office or the secretary of state's office. Figure 1 shows the 39 states and the District of Columbia that require charitable organizations to register with state charity offices. In general, states prohibit unregistered organizations from soliciting for donations in their state. Some state agencies also review vehicle donation advertisements in response to consumer complaints, or when they discover a charity is soliciting for donations in their state without being registered.

³Registration of charitable organizations may involve providing information such as the name of the organization and charitable purpose; office locations; information on key charity officials; and the general purpose for which the solicited contributions are to be used.

standards to promote ethical practices. They disseminate these standards in an effort to “inspire public confidence.” These standards include the voluntary disclosure of an organization’s activities, finances, fundraising practices, and governance.

Few Charities Reported Having Vehicle Donation Programs, and Small Percentage of Taxpayers Claim Deductions for Donated Vehicles

Based on our national survey of charities, few charities reported having a vehicle donation program. Correspondingly, a small percentage of taxpayers claimed tax deductions for donated vehicles.

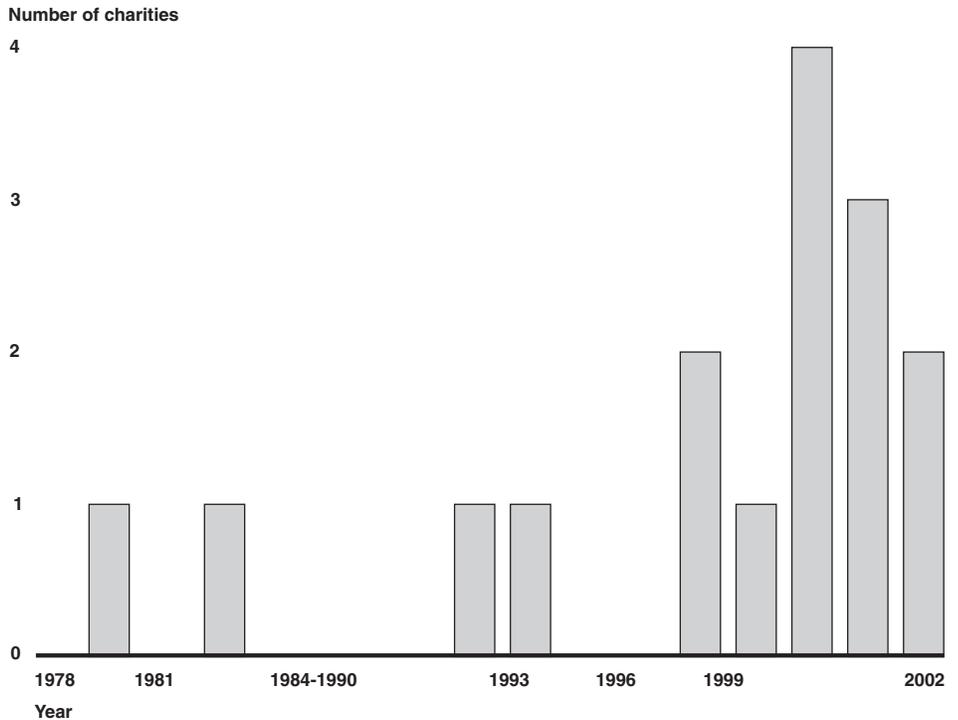
Few Charities Reported Having Vehicle Donation Programs

Despite frequent advertisements soliciting vehicle donations to charities, few charities reported having vehicle donation programs. Of U.S. charities with revenues of \$100,000 or more, we estimate that 2.7 percent, or about 4,300 charities nationwide, have vehicle donation programs.⁴ This projection is based on our survey of 600 charities, of which 16 reported having a vehicle donation program.

While the small number of charities with vehicle donation programs does not allow us to make national estimates, we found that most of the 16 vehicle donation programs identified by the national survey were relatively new programs, as shown in figure 2. Only 4 of the 16 charities had vehicle donation programs prior to 1998.

⁴We surveyed a statistically representative sample of charities from the 2002 core data set of the National Center for Charitable Statistics, of approximately 157,500 501(c)(3) organizations with incomes of \$100,000 or higher. The 95 percent confidence interval for the number of charities with vehicle donation programs is between 1.5 to 4.3 percent, or between 2,400 to 6,800 charities.

Figure 2: Number of Sampled Charities Starting Vehicle Donation Programs from 1978-2002



Source: GAO summary of data from 16 charities in national survey of charities with annual revenues of \$100,000 or more.

Small Percentage of Taxpayers Claimed Deductions for Vehicle Donations

Our analysis of IRS tax return data for tax year 2000 showed that a small percentage of taxpayers claimed deductions for vehicle donations. We reviewed a representative sample of taxpayer returns⁵ that claimed noncash contributions of over \$500 for tax year 2000. We found that of the 129 million returns filed that year, an estimated 0.6 percent,⁶ or 733,000 returns, contained tax deductions for vehicle donations. The 733,000 returns represented about 17 percent⁷ of the 4.4 million returns

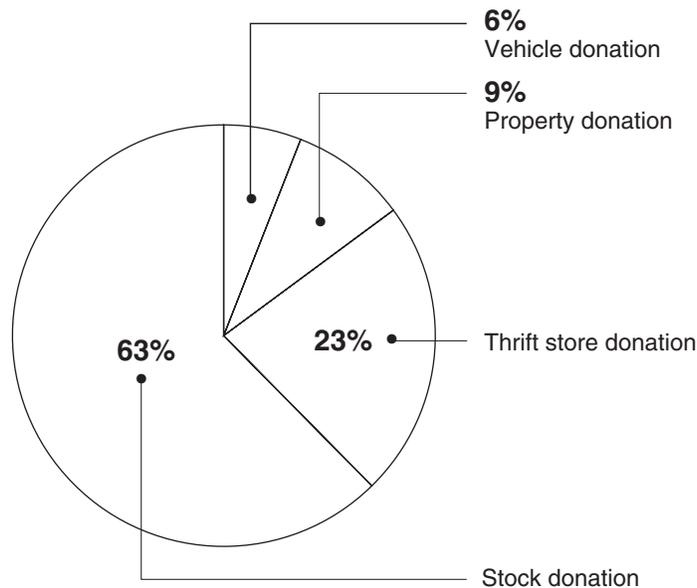
⁵We used IRS's tax year 2000 Statistics of Income (SOI) file to select our statistically representative sample of returns.

⁶The 95 percent confidence interval for number of returns filed is plus or minus 0.4 percent, or between 0.2 and 1 percent.

⁷The 95 percent confidence interval for noncash contribution deductions over \$500 is plus or minus 10.8 percent, or between 6 and 28 percent.

filed with noncash contribution deductions over \$500. We estimate that vehicle donation deductions lowered taxpayers' income tax liability by an estimated \$654 million.⁸ The dollar amount of vehicle donation deductions totaled about 6 percent of the noncash contributions claimed,⁹ while stocks and thrift store donations accounted for most of the deductions for noncash charitable contributions over \$500, as shown in figure 3.

Figure 3: Percentage of Dollar Amount of Deductions for Noncash Charitable Contributions over \$500 by Type of Contributions, Tax Year 2000



Source: GAO analysis of a random sample of returns from IRS tax year 2000 Statistics of Income file.

Note: Totals do not add to 100% due to rounding. Sampling errors associated with these estimates are large. The 95 percent confidence intervals are: stock donation 39-86%, thrift store donation 8-38%; property donation 3-19%, and vehicle donation 2-15%.

⁸The 95 percent confidence interval for the \$654 million estimate is plus or minus \$480 million, or between \$174 million and \$1.13 billion.

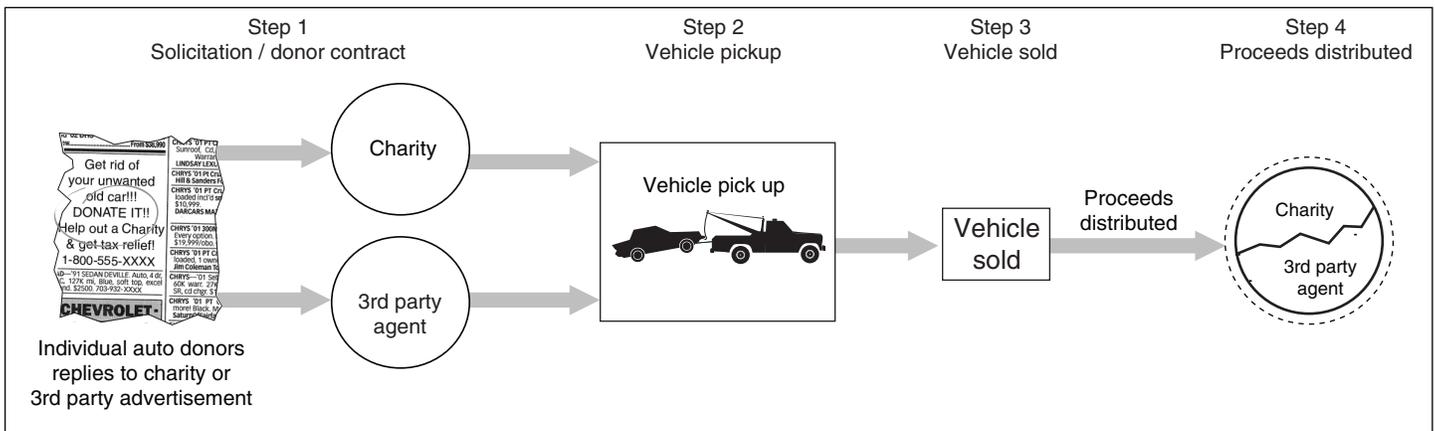
⁹This value may underestimate the taxes foregone because only vehicles valued over \$500 are included. About 16 million taxpayers claimed an estimated \$5.5 billion in noncash contributions of \$500 or less. Some of these taxpayers may have claimed tax deductions for vehicle donations, but they were not required to list these transactions on their returns.

Vehicle Donation Programs Varied for the Charities We Reviewed, but Most Used Third-Party Agents

While few taxpayers claim tax deductions for donated vehicles, 2 charities we contacted conducted surveys¹⁰ of their donors and found that the ability to claim a tax deduction was one of the important reasons individuals donated their vehicles to charity. Other important reasons cited in the surveys for donating vehicles were to help a charitable cause and to easily dispose of an unwanted vehicle.

The vehicle donation process, for the charities we reviewed generally consisted of four steps: (1) solicitation/donor contact, (2) vehicle pick-up, (3) vehicle sale, and (4) distribution of proceeds. Forty-five of the 65 charities we interviewed reported using third-party agents for some or all of these steps rather than relying on in-house resources, and some had arrangements with more than one agent. About half of the 45 charities used third-party agents to run the entire program, while other charities used a third-party agent for only certain functions. The vehicle donation process is depicted in figure 4.

Figure 4: Vehicle Donation Process



Source: GAO depiction of information obtained from charities and third-party agents.

¹⁰Two charities shared voluntary feedback provided by vehicle donors. Over 3,000 donors responded in one survey and about 400 responded in the other. We did not review the methodology for the surveys, and consider the results to be illustrative.

Step 1 – Solicitation/donor contact. The vehicle donation process generally begins with solicitations for donated vehicles through advertisements. Vehicle donations may be solicited directly by charities, third-party agents, or both, depending on the agreement between the charities and third-party agents. Of the 45 charities we interviewed that discussed their advertising practices, 26 reported that advertising was handled solely by the charity. Some third-party agents solicited donated vehicles for several charities using a common advertisement. Some of the most common mediums for vehicle donation advertisements include the radio, newspapers, and the Internet.¹¹ (For Web version of this report, click here (www.gao.gov/media/audio/donatecar.mp3) to hear a radio vehicle donation advertisement, or see app. II for the transcript.) Vehicle donations are also solicited through advertisements on billboards, truck banners (see fig. 5), and television, as well as in newsletters and even on small paper bags.

¹¹We reviewed a nonprojectable sample of 147 radio, newspaper, and Internet advertisements for donated vehicle programs to determine the types of claims that charities and third parties made in soliciting for used vehicles. Appendix II provides information on the results of our analysis.

Figure 5: Example of Vehicle Solicitation on a Truck

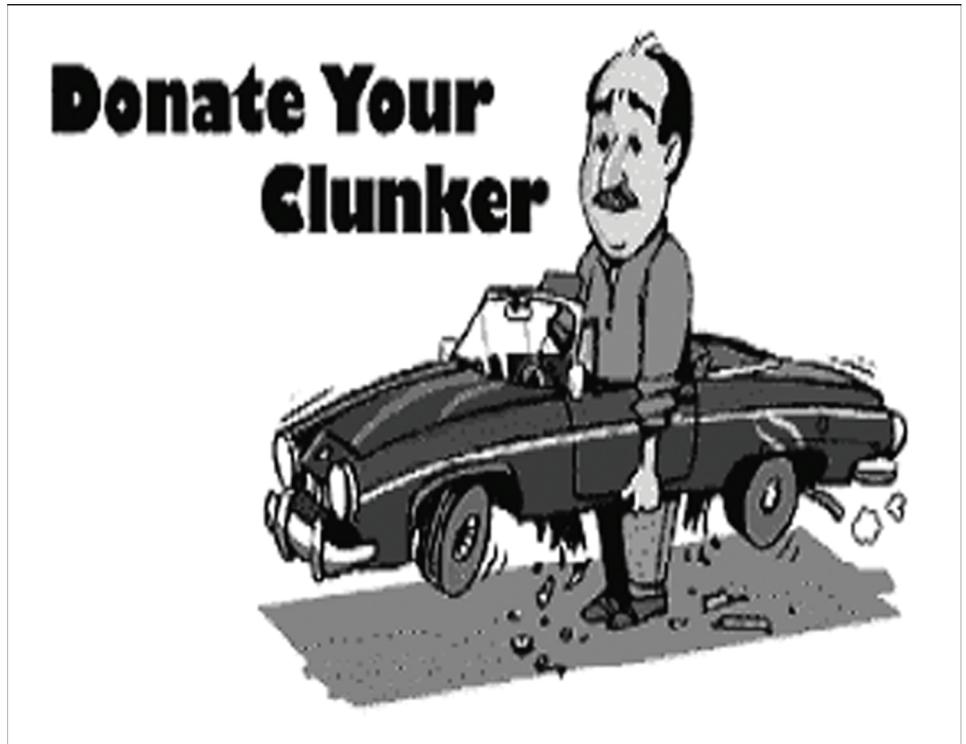


Source: GAO, courtesy of The Salvation Army, Pasadena, California.

Also during this step, donors initiate contact with the charity and or third-party agent to donate their vehicle. Either charities or third-party agents may take the initial call from a potential donor, asking the donor questions that may be used to screen vehicles, such as the vehicle's make, year, and condition, and if the donor has the title to the vehicle. Twenty-four of the 65 charities we interviewed reported that they accepted donor calls in-house, while 23 said that they used third-party agents to accept calls or shared this responsibility.¹² Some charities or their agents limited the vehicles they accepted to those they anticipated would produce a profit after towing and other expenses. However, some charities reported accepting vehicles regardless of condition, as suggested in figure 6. One charity official stated that accepting vehicles with little value was a way of generating goodwill for future donations.

¹²We did not obtain information on donor contacts with the charity or third-party agents for the remaining 18 charities.

Figure 6: Some Charities Accept Vehicles in Poor Condition



Source: Article on charities that accept vehicles in poor condition, courtesy of Cartalk.com.

Step 2 – Vehicle pickup. After the donor makes the initial call to donate a vehicle, arrangements are made to pick up the vehicle and deliver it to wherever it will be stored until it is sold. Vehicles are generally towed, according to a third-party agent, due to safety and liability concerns. A majority of charities we contacted used third-party agents to pick up vehicles. Once vehicles are picked up, donors are generally provided with a receipt to document the donation for tax purposes. At this time, the charity or third-party agent also obtains the title of the vehicle from the donor.¹³ Some charities may provide the donor with state-required forms (e.g., release of liability), or references for establishing the tax deductible value of their donated vehicle (e.g., car guides or IRS guidance).

¹³IRS ruled in November 2002 (REV. 2002-67) that a donor transfer of a vehicle to a charity-authorized agent can be treated as a transfer to the charity.

Step 3 – Vehicle sale. Once collected, donated vehicles are most often sold. Charities or third-party agents typically sell donated vehicles through auctions to auto dealers, to the public, or to vehicle salvagers. The majority of charities we contacted said that charities do not handle the selling of vehicles themselves, but instead rely on a third-party agent. Charities and third-party agents said that they generally sold donated vehicles at auto auctions because (1) auctions allow high volume of auto sales and (2) charities do not have the resources, such as staff, storage space, or licenses required to sell vehicles themselves. Of the 65 charities we interviewed, 43 charity officials said they sold all of their donated vehicles, while officials at 16 charities said they used some donated vehicles for clients, charity staff, or other purposes.¹⁴ For example, 1 charity official said that the charity used donated vehicles for student training for a community college auto course.

Step 4 – Distribution of proceeds. After vehicles have been liquidated, the proceeds are distributed. Charities with in-house vehicle donation programs keep proceeds that remain after deducting costs associated with processing the vehicles. When charities use third-party agents, the financial agreement between the charity and the third-party agents dictates the proceeds that the charity and fund-raiser will receive from the sale.

In addition to the in-house and third-party arrangements, we identified some variations in how vehicle donation programs operate. In one case, a consortium of 14 charities jointly runs a vehicle donation program in conjunction with a wrecking yard. The charities share in oversight of the operations, such as inspecting donated vehicles and monitoring vehicle donation reports. Donors can select 1 charity to receive the proceeds, or if no charity is designated, proceeds are split among members of the consortium equally. In another case, 1 large charity runs a national vehicle donation program and serves regional offices as a third-party agent would, charging its regions vehicle processing costs. However, some of the charity's affiliates choose other third-party agents that are not part of the national program to run their program. Finally, in still another case, a large charity runs a national program and serves charity affiliates, but also has a nonprofit vehicle donation program for other smaller charities.

¹⁴We did not obtain information on donated vehicle disposals from the remaining 6 charities.

Charities Receive Less than Donors Claimed as the Value of the Vehicle for the 54 Donations We Reviewed

Although proceeds from vehicle donations are a welcomed source of revenue, it was not a crucial source of income for the majority of the charities we reviewed. The proceeds charities received from vehicle donations varied in the 54 cases we tracked, but were generally considerably less than the amount donors claimed on their tax returns for the donated vehicles. Based on information from charities we spoke with, this difference is due in part to donated vehicles being often sold at auto auctions at wholesale prices, and processing expenses and third-party fees reducing the amount of proceeds charities receive. We could not verify the accuracy of taxpayer claims regarding the value of their donated vehicle.

Revenue to Charities from Vehicle Donations Varied

The annual net proceeds from vehicle donations for 2002 reported by the charities we interviewed ranged from as little as \$1,000 for 2 vehicles donated to a senior center, to over \$8.8 million for 1 national charity that received over 70,000 vehicles. The charities considered the proceeds received as a welcomed, but rarely crucial source of income to sustain their operations. Although the dollar amount received from vehicle donations was over \$1 million for several charities we spoke with, for many, the revenue was a small share of total charity revenue. Charity proceeds constituted less than 2 percent of the total annual budget for 15 of the 30 charities providing budget information; however, 2 of the charities stated that vehicle donation proceeds provided 90 percent or more of their annual revenue. Many of the charities we interviewed stated that their vehicle donation program provided benefits beyond revenue by providing an expanded donor base and name recognition for the charity.

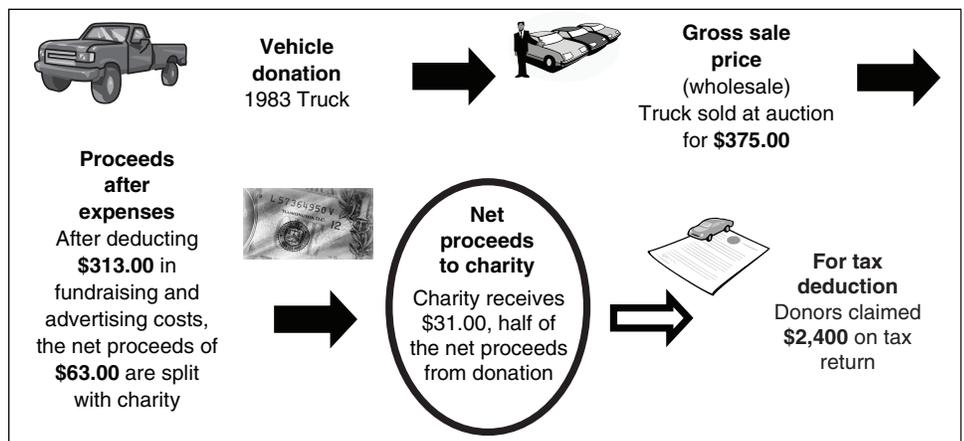
Charity Proceeds Much Less than Values Claimed by Donors in Cases We Tracked

In the 54 specific vehicle donations we tracked, charity proceeds from vehicle donations were much less than the value deducted by donors on their tax returns. Based on charity and the third-party agent we contacted, two factors contributed to this difference: (1) vehicles are often sold at auto auctions for salvage or at wholesale prices, which are typically lower than prices that would be received if the donor sold the vehicle themselves and (2) processing costs and fees are deducted from gross sales revenue, further reducing charity proceeds.

Figure 7 illustrates the amount a charity received from 1 of the 54 vehicle donations we tracked. In this case, a 1983 GMC Jimmy truck was donated in 2001 to a charity whose vehicle donation program is operated by a third-party agent. The gross sale price for the truck, which sold at an auction, was \$375. After deducting third-party and advertising expenses, net proceeds from the vehicle sale totaled \$62.00. This amount was split

50/50 between the third-party agent and charity, leaving the charity with \$31 from the vehicle donation. The taxpayer claimed a \$2,400 tax deduction for the donated vehicle on his/her tax return, based on the fair market value of the vehicle listed in a used car guidebook. Appendix III details the vehicle donation transactions for all 54 tracked cases.

Figure 7: Example of a Vehicle Donation



Source: GAO.

Donated vehicles are often sold at auto auctions for lower prices than what a seller might receive if the vehicle were sold to a private party. For the 54 donated vehicles we tracked, sale prices for donated vehicles ranged from 1 percent to 70 percent of donor tax deduction claims, and over half of the cases were 10 percent or less of what donors' claimed. (See app. III) As one third-party agent stated, it is unfair to compare auction sale prices for donated vehicles to deduction claims because most donated vehicles are sold at auctions that cater predominantly to wholesalers who then resell the vehicle at higher prices. Of the 59 charities we contacted during our review that said they sell some or all donated vehicles, 42 used auctions to dispose of the vehicles.

Another reason for the difference between the amounts deducted by donors for donated vehicles and the proceeds charities receive from vehicle sales is that sales proceeds are reduced by vehicle processing costs, such as towing, advertising, program administration, and third-party agent fees. California is the only state that collects data on the proceeds

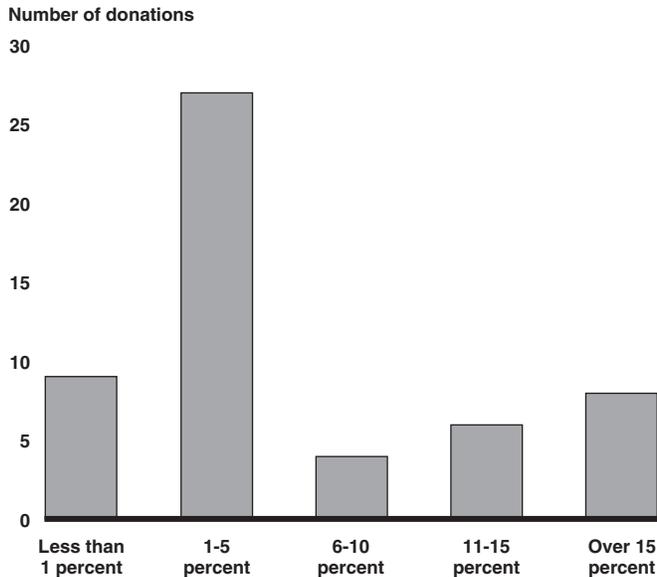
received by charities from vehicle donation programs.¹⁵ According to the California Attorney General's records, 145 charities using third-party agents who had filed the required financial reports received approximately \$16 million, or 35 percent of the \$45.8 million raised from reported donated vehicle sales, during 2001. The amount of proceeds these charities received in California ranged from 2 percent to 80 percent of proceeds after third-party costs were deducted.

Taking both the lower sales price and deductions for processing costs into account, the proceeds received by charities from donated vehicles were much lower than the donor-claimed value for the vehicles in the 54 donated vehicle cases we tracked. Charities received between 0 and 54 percent of the value claimed by donors,¹⁶ with most receiving 5 percent or less, as shown in figure 8. For some vehicle donation sales, charities receive no proceeds after the costs of vehicle donations are deducted. For 6 of the 54 donated vehicles we tracked, the processing costs exceeded the sales price for the vehicle (see app. III). For charities using third-party agents, whether the loss is absorbed by the third-party agent or deducted from charity proceeds from another higher value donated vehicle depends on the agreement between the parties.

¹⁵See the state Web site for reporting requirements and list of charities and third-party agents at www.caag.state.ca.us.

¹⁶About half of the vehicles we tracked came from 1 charity that does its own advertising, which can be one of the highest cost elements of a vehicle donation program. Proceeds this charity received from its third-party agent are higher because the cost of advertising is not included.

Figure 8: Charity Proceeds as a Percent of Donor Claims in 54 Selected Vehicle Donations



Source: GAO analysis of 54 tracked vehicle donations.

Because third-party agents and other donated vehicle processing costs vary among charities, comparing net vehicle donation proceeds between charities can be misleading. One third-party agent said that programs claiming a high percent of proceeds as profit are not including their full costs, that is, they are only counting towing costs and may not include space, advertising, or staff costs. Similarly, 1 charity managing its own vehicle donation program stated that its proceeds may be lower than some other charities, but they are accurately capturing the true program costs while others may not be. Proceeds also differ based on different agreements between charities and third-party agents for paying for the third-party's services. Of the 45 charities we contacted during our review that reported using third-party agents, 20 said third parties were paid a percentage of net proceeds for their vehicle donation services, many splitting the net proceeds 50/50. Other charities reported paying third-party agents a flat fee per vehicle¹⁷ or had some other arrangement, such as paying for towing expenses incurred by third-party agents.

¹⁷Seven charities reported a flat fee arrangement, such as \$45 or \$50 per vehicle.

A number of charities interviewed had little insight into vehicle donation processing costs incurred by third-party agents because they received limited, or in a few cases, no information on charges for vehicle donations. Although most charities reported receiving an itemized list of revenue and costs of donated vehicles from their third-party agents, the detail was not always provided. For example, 1 charity received an itemized list of each vehicle sold that listed all costs under “cost of sales” except for the third-party fee. Another received an itemized list of sold vehicles with all costs under “tow fees” and “expenses.” Thirteen of the charities we contacted reported that they received a check from a third-party agent accepting vehicles for the charity without their knowledge, and only 4 of the 13 said that information on processing costs was provided. One well-known charity with its own vehicle donation program stated that they repeatedly contacted two third-party agents to stop them from accepting vehicles on their behalf. The charity estimated that in 1 year one of the third parties had deducted approximately \$25,000 from proceeds to the charity over what it would have cost the charity itself to process the donated vehicles.

Limited Data to Assess Taxpayer Accuracy in Estimating Donated Vehicle’s Fair Market Value

An additional factor that may explain the difference between the proceeds charities receive from vehicle donation sales and what donors claim as the value of the donated vehicle may be an inaccurate assessment by donors of the vehicle’s value. Although many charities we spoke with said they try to limit vehicle acceptance to those in running condition, some charities accept vehicles in poor condition. Charities stated that a number of the vehicles donated are sold for scrap, and some said donor claims about vehicle value might be inflated.

We could not determine in the 54 cases we tracked whether donors appropriately claimed deductions for donated vehicles. IRS guidance suggests that taxpayers consider using used car guides when estimating the fair market value for donated vehicles, while also considering the vehicle’s condition and mileage.¹⁸ Of the 54 cases, 25 assessments were based on nationally recognized used car guides.¹⁹ However, since we did not have additional information, such as the vehicle’s condition and

¹⁸IRS Publication 561, *Determining the Value of Donated Property*.

¹⁹Seven of the 54 did not identify the basis for their vehicle’s claimed value; 6 used a “catalogue;” 8 stated they used comparable sale prices; and the remaining 8 out of 54 used the Internet or other miscellaneous sources.

mileage, we could not determine whether the reported valuations claimed by donors accurately reflected fair market value.

IRS and States Compliance Activities Directed at Donated Vehicle Issues Have Identified Cases of Noncompliance

The IRS has one compliance program that produces audit leads on potentially overstated noncash contributions, but it does not follow up on these leads. According to IRS officials, it does not audit cases with potentially overstated noncash contributions because it has higher priority compliance issues to address. Also, IRS data on its returns processing procedures that are directed to disallowing deductions for inappropriately claimed noncash contributions show that a small percent of returns are subject to these procedures and that few deductions are disallowed. As part of its National Research Program, IRS plans to gather information on noncash contribution compliance issues, which could provide it with data to determine how best to address noncash contribution compliance issues. An IRS donated property task force has drafted several recommendations that could lead to more emphasis being directed to vehicle donation programs and deductions.

Data from the 11 states we contacted were limited regarding noncompliance by charities and third-party agents involved with vehicle donation programs. However, several states' agencies have identified and initiated legal actions against individuals and organizations that have not complied with laws or regulations related to vehicle donations. These include instances in which an organization posed as a charity to receive donations, a third party inappropriately kept vehicle donation proceeds, and a charity was not following state requirements for processing vehicles.

IRS's Compliance Activities Results in Few Disallowed Deductions for Noncash Contributions

One of IRS's compliance programs is designed to detect individual taxpayers who may overstate noncash contributions on their tax returns, including donated vehicles. However, due to higher priority demands for determining compliance with tax laws, IRS has not been following up on leads of potential noncompliance that are generated from this program. Under this program, about two full-time equivalent employees at IRS's Ogden Submission Processing Center are used to compare the proceeds charities received from donated property shown on property disposal

forms (Form 8282 Donee Information Return²⁰) with the amounts claimed by taxpayers on their tax returns. If there is a wide discrepancy between the charity's revenues for the property and the amount claimed by the taxpayer on their tax return, the case is referred to field offices for possible audit.

An Ogden Campus official estimated that on average about 20,000 Form 8282s are received annually, and that 4,000 to 5,000 individual tax returns are reviewed to determine whether they should be audited. An Ogden official estimated that the cost to retrieve a tax return from IRS files is between \$100 and \$150. Ogden officials stated that they do not track the number of cases that are referred for possible audit or the types of donated property involved in the cases, but estimated that 30 percent to 40 percent of the returns reviewed are referred.²¹ An IRS official estimated that most referred cases related to donated land or boats, which generally have higher potential tax assessments than do vehicles. According to our analysis of the IRS audit data,²² none of the returns that were referred during fiscal years 2001 and 2002 were audited. IRS officials stated that the returns were not audited because the potential tax assessment yield from these cases was substantially smaller than from other types of compliance issues handled in the field.

IRS also established processing procedures for returns to identify and disallow deductions for noncash contributions either when taxpayers claim noncash contributions over a certain amount or when they do not attach required Form 8283, Noncash Charitable Contributions²³ to their returns. These processing procedures cover relatively few noncash contribution deductions. For example, we estimate that for tax year 2000 returns, IRS's returns processing threshold for these deductions

²⁰Under section 6050L of the Internal Revenue Code, charities are required to submit Form 8282 "Donee Information Return" when they dispose of donated property within 2 years of receiving property for which the taxpayer valued for more than \$5,000. The form describes the property, the donor, and the proceeds received by the charity. All Form 8282s are to be sent to IRS's Ogden Campus.

²¹According to Ogden officials, as of September 23, 2003, 516 cases had been referred to the field in 2003.

²²We analyzed IRS's Audit Information Management System, which is a computerized file of audit cases, to determine whether any of the Ogden cases were audited in fiscal years 2001 and 2002. We did not verify the accuracy of these data.

²³Taxpayers are required to attach Form 8283 to their returns when they have noncash contributions over \$500. We did verify the accuracy of IRS's disallowed deductions data.

would account for about 1 percent of the returns where noncash contributions of over \$500 were claimed. According to IRS, returns that meet the threshold are given a special code and are reviewed by the examination staff to determine whether they have audit potential. Returns with audit potential are put in the audit inventory for possible audit selection by field agents. IRS found that these returns were not being selected for audit because field agents had other higher priority work. IRS expects this higher priority work to continue into the foreseeable future, and as a result, beginning in January 2004, returns processing staff will discontinue coding these returns for review by examination staff. IRS does not have data on the number of noncash contribution deductions that have been disallowed because of missing Form 8283s, but IRS officials estimate that few were disallowed. IRS also has returns processing procedures to identify and disallow noncash donations to individuals or nonqualifying organizations, such as political organizations. According to IRS, in 2002 it disallowed noncash contributions of about \$21.8 million on 154 tax returns for donations made to individuals and nonqualifying organizations.²⁴

In addition to the above compliance activities that focus on taxpayers' deductions for donated vehicles and other types of noncash contributions, IRS's Exempt Organization Division has an examination program that focuses on whether charities meet tax-exempt requirements and complies with federal law, such as those governing the use of funds for a charitable purpose rather than private gain. IRS had little information on whether its examinations identified compliance problems with charities operating vehicle donation programs. At the time of our review, IRS officials informed us that IRS had seven vehicle donation program examinations in progress and had completed two cases. According to an IRS official, in one recent case, IRS revoked the exemption status for one Florida organization whose charitable purpose was to provide research, education, and technical training on the marine environment. The charity raised funds through the solicitation and sale of boats. IRS found that the organization's charitable activities were insubstantial, and that private parties were benefiting from the substantial economic benefit of the organization's activities.

²⁴As of August 31, 2003, IRS data shows that 139 deductions valued at about \$12 million were disallowed.

Results of National Research Program and Donated Property Task Force May Lead to More Noncash Contribution Compliance Activities

While more compliance resources are being devoted to higher priority audit issues such as abusive tax shelters and high-income nonfilers, IRS's National Research Program is to provide data on compliance problems associated with noncash contributions, including deductions for donated vehicles. Under the program, the IRS randomly selected about 47,000 tax year 2001 returns to determine whether taxpayers complied with statutory income, expense, and tax reporting requirements. Returns with noncash contributions, including donated vehicles, could be subject to audit to verify donation claims. Once this project is completed in December 2004, IRS plans to assess individuals' compliance related to deductions for noncash contributions and determine what actions are needed to help ensure proper reporting in this area.

In 2001, IRS established a donated property task force that examined various issues relating to such topics as property appraisals and valuations and coordination of compliance activities between various IRS organizational units. In July 2002, the task force developed several draft recommendations for improving IRS's oversight of donated property programs and deductions. The recommendations included revising Form 8283 to add a separate category for donations of motor vehicles on the portion of the form that identifies the type of property donated. Another recommendation made was to establish procedures to ensure that IRS records and maintains copies of Form 8282s that are filed with the Ogden Submission Processing Center. The task force noted that without such procedures, IRS could not verify the accuracy of the forms or determine whether charities filed them. The IRS's audit procedures instruct auditors to determine whether charities submit required Form 8282 when disposing of donated vehicles. Auditors may assess penalties if they find that the charity did not submit required Forms 8282.²⁵ However, determining whether charities filed the forms may be difficult because the forms are destroyed if they are not used in Ogden's noncash contribution audit referral program discussed above. According to IRS officials, at the time of our review, IRS had not taken action on this recommendation.

²⁵Under Internal Revenue Code section 6721, a \$50 penalty can be assessed for each failure to file a Form 8282.

State Agencies Have Identified Compliance Problems with Donated Vehicle Programs

Many states oversee charities to protect the public, and 39 states and the District of Columbia require charities to register with the state attorney general or the secretary of state offices. States have an interest in whether charitable fund-raising is fraudulent and whether charities are using funds to meet the charitable purpose for which they were created. We contacted 11 state attorney general offices or secretaries of state to identify information related to vehicle donation programs. Only 1 state reported having data to identify charities with vehicle donation programs; however, several said that they would investigate a charity vehicle donation program if they received complaints from the public. As discussed in the following items, several of these states uncovered problems with vehicle donation programs, including instances in which an organization posed as a charity to receive donations, third-party agents inappropriately kept vehicle donation proceeds, a charity was not following state requirements in processing vehicles, and individuals solicited vehicle donations for fictitious charities.

- In Massachusetts, a for-profit company representing itself as a charity solicited cars through newspaper ads leading potential donors to believe that the organization was a charity and that all, or a substantial portion of the proceeds would go directly to providing counseling to children and parents in Massachusetts. In May 2002, Massachusetts brought and won an enforcement action in which the company's president agreed with state officials to cease all further activity related to the car donation operation.
- Connecticut officials filed suit in July 2003 against a used auto dealership and a bogus charity that was created by the dealership's owner. Vehicles were solicited, supposedly to help abused and abandoned animals, but virtually all of the proceeds were retained by the auto dealership, which maintained one checking account for both organizations, according to state officials.
- Ohio's Attorney General filed a complaint in 2003 against a nonprofit organization that solicited over 800 vehicles in the name of donor designated charities, but at least \$258,000 in vehicle proceeds was not provided to the designated charities, according to the complaint.
- The California Attorney General's office filed a civil action against the incorporator of a nonprofit that solicited vehicles for charity, but there was never a charitable program, only a used car lot. The Attorney General's office estimated that over \$1 million was raised by the operation, none of which benefited charity. Criminal charges against the defendant resulted in a 5-year jail sentence.

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- In a case filed in June 2003, the California Attorney General's office filed a case against a nonprofit organization selling donated vehicles to the public that had not met California's safety requirements. Some vehicles sold for export to locations such as Belize and Mexico, which do not require the same state safety standards, were not actually exported.
 - An indictment filed in a U.S. District court in October 2002, charges that defendants established over 100 toll-free numbers with sound-alike charity names, such as the National Mental Health Association, Cancer Society, or National Diabetes Association. According to the case filing, potential donors were fraudulently told that the sound-alike organizations were the national charities whose names they approximated or were affiliated with nationally known charities; however, according to the case records, the defendants kept all proceeds.

Guidance Is Available to Donors and Charities Regarding Vehicle Donations

A number of government and consumer organizations provide guidance to donors to assist them in making informed decisions about donating their vehicles. Guidance is also available to assist charities in accepting noncash contributions and in selecting, hiring, and managing third-party agents.

Donor Guidance for Donating Vehicles

Charitable donors in general, including those that donate their vehicles, can rely on guidance available from the federal government and other sources to ensure that they make informed donations. For example, IRS publishes guidance on claiming deductions for donations, and establishing fair market value for items donated. In addition, a Federal Trade Commission-led initiative highlights legal actions taken against individuals and organizations that engage in phony philanthropic activities, and provides tips on how to recognize and avoid fraudulent solicitations. Some states also offer guidance for potential donors and may have financial information on specific charities. A number of nongovernmental sources offer donors similar advice. For example, the Better Business Bureau's Wise Giving Alliance, Guidestar, Charity Navigator, and the American Institute of Philanthropy offer tips for charitable giving or information on specific charities.

Appendix IV lists specific sources for donor guidance.

The guidance generally identifies steps donors should take when donating vehicles and claiming associated tax deductions. These steps are listed as follows:

- Verify that the recipient organization is a tax-exempt charity. Churches, synagogues, temples, mosques, and governments are not required to apply for this exemption in order to be qualified.
- Determine whether the charity is properly registered with the state government agency that regulates charities. The state regulatory agency is generally the state attorney general's office or the secretary of state.
- Ask questions about how the donated vehicle will be used to determine whether it will be used as intended. Such questions include: Will the vehicle be fixed up and given to the poor and needy? Will it be resold and, if so, what share of the proceeds will the charity receive?
- Itemize deductions in order to receive a tax benefit from the donation. The decision to itemize should be determined by whether total itemized deductions are greater than the standard deduction.
- Deduct only the fair market value of the vehicle. The fair market value takes into account many factors, including the vehicle's condition, and can be substantially different from the value listed in used car guides.
- Document the charitable contribution deduction. IRS Publication 526 identifies requirements for the types of receipts taxpayers must obtain and the forms they must file.
- Follow state law regarding the car titles and license plates. Generally, the donor should ensure that the title of the vehicle is transferred to the charity's name by contacting the state department of motor vehicles, and keep a copy of the title transfer. Donors are also advised to remove the vehicle's license plate if allowed by the state.

Guidance to Charities

Some guidance is also available to charities with vehicle donation programs regarding accepting noncash contributions and hiring a third-party agent for fund-raising purposes. For example, IRS Publication 1771, Charitable Contributions, Substantiation, and Disclosure Requirements, explain federal law for organizations that receive tax-deductible contributions. The IRS also plans to publish, by March 31, 2004, a brochure advising charities on how to avoid problems raised by vehicle donation programs. State guidance to charities we reviewed was

generally not specific to vehicle donation programs, but rather provided general guidelines for selecting, hiring, and managing third-party agents. In addition, a number of nongovernmental sources offer charities similar advice. The Better Business Bureau, for example, publishes standards for charities in areas such as fund-raising activities, and issuing informational materials to donors. Appendix IV lists specific sources for charitable guidance.

Some of the general guidance provided to charities that are relevant to donation programs are listed as follows.

- Consult and adhere to IRS's publications explaining federal law for organizations that receive tax-deductible contributions, and review IRS's annual Exempt Organizations Implementing Guidelines.
- Comparison shop for fund-raising agents, insist on a written contract, and do not relinquish control of a program to the fund-raiser.
- Follow standards published by various nongovernmental sources for governance, oversight, fund-raising activities, and issuing informational materials.

Conclusion

IRS will not have data on whether taxpayers are appropriately claiming tax deductions for noncash contributions, including donated vehicles, until it completes its National Research Program study at the end of 2004. In the meantime, IRS is using resources to produce audit leads on overstated noncash contributions that are not being audited because of higher priority compliance demands. To determine whether these resources could be used more productively, IRS could assess the merits of the noncash contribution compliance program to determine whether it could be modified to take advantage of the leads that are generated, such as auditing taxpayers through correspondence instead of sending them to field offices.

The IRS has audit procedures that instruct auditors to assess penalties against charities that do not file the required Form 8282 when they dispose of property. However, as reported by its donated property task force, IRS does not have a way of verifying whether charities file the required Form 8282 or whether forms that are filed are accurate. The task force's draft recommendation to maintain and record Form 8282 is worth considering. This recommendation was made in July 2002, and has not been acted upon.

Recommendations for Executive Action

In conjunction with IRS's ongoing National Research Program study, which is to be completed in December 2004, we recommend that the Commissioner of the Internal Revenue assess (1) whether the Ogden compliance program should be modified to take advantage of the leads generated by the program and (2) the feasibility and usefulness of maintaining and recording the receipt of Form 8282 as recommended by IRS's donated property task force.

Agency Comments and Our Evaluation

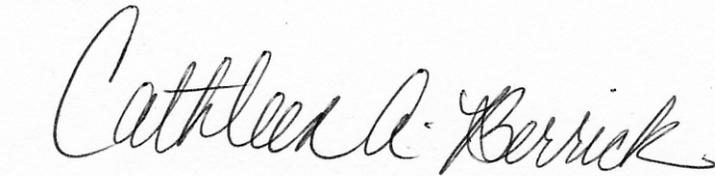
We received written comments on a draft of this report from the Commissioner of Internal Revenue (see app. V). The Commissioner agreed with our recommendations and identified some alternatives and actions that IRS is considering to ensure compliance by charities with reporting requirements.

With regard to our recommendation that IRS assess its compliance program for generating audit leads on taxpayers that may have overstated their noncash contributions, the Commissioner stated that IRS actions related to the compliance program will be based on its review of the level of noncompliance in reporting noncash contributions. The Commissioner also agreed with our second recommendation to consider whether the Form 8282s that charities submit when disposing of donated property should be recorded and retained. He stated that decisions on the handling of the forms would be made in conjunction with decisions on the first recommendation and with other changes IRS has underway, particularly the redesign of the Form 990. IRS is considering changing the Form 990 to include information on the filing of Form 8282 as an alternative to retaining the Form 8282.

The Commissioner noted that some steps have already been taken to improve the reporting of vehicle donation programs, such as the revision of Form 990 filing instructions for 2003 to provide organizations with an example of a vehicle donation, and other actions noted in our report.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after the date of this report. We will then send copies of this report to the Secretary of the Treasury; the Commissioner of Internal Revenue; the Director, Office of Management and Budget; and other interested parties. We will also make copies available to others on request. The report is also available on GAO's Web site at <http://www.gao.gov>.

If you or your staff have any questions on this report, please contact me at (202) 512-8777 or Ralph Block at (415) 904-2150. Key contributors to the report are listed in appendix VI.

A handwritten signature in black ink that reads "Cathleen A. Berrick". The signature is written in a cursive style with a large initial 'C' and a long tail on the 'k'.

Cathleen A. Berrick, Director,
Homeland Security and Justice Issues

Appendix I: Objectives, Scope, and Methodology

Our objectives were to determine: (1) the number of charities with vehicle donation programs, and the number of taxpayers claiming deductions for vehicle donations; (2) the vehicle donation process; (3) proceeds received by charities from vehicle donations to what donors claim for vehicle donation deductions; (4) the Internal Revenue Service’s (IRS) and state compliance activities directed at vehicle donations and incidents of noncompliance; and (5) guidance available to taxpayers and charities to help them make informed decisions regarding vehicle donations. To satisfy these objectives, we relied on two sources of nationally representative information and several anecdotal sources of information. Table 2 summarizes the primary data sources used to address each of the objectives.

Table 2: Data Sources Used to Address Objectives

Objectives	National charity survey	IRS’s Statistics of Income file	Charity officials	Third-party agents and others	IRS and state officials	Other data sources ^a
(1) Number of vehicle donation programs	x				x	
Number of taxpayers claiming deductions		x			x	
(2) Vehicle donation process	x		x	x	x	x
(3) Vehicle donation proceeds	x		x	x	x	x
(4) IRS, state compliance activities					x	
(5) Taxpayer and charity guidance				x	x	

Source: GAO.

^aOther data sources include 54 tracked vehicle donation cases, Internet searches, and a judgmental sample of vehicle donation advertisements.

National Charity Survey

To estimate the number of charities that have vehicle donation programs, we conducted a national telephone survey with a statistically representative sample of organizations registered with IRS as 501(c)(3) organizations (charities) with an annual income of at least \$100,000. The sample was drawn from the 2002core data set (tax year 2001) of the National Center for Charitable Statistics (NCCS), which contains the IRS Form 990 data for all nonprofit organizations in the United States. A simple random sample of 600 charities was drawn from the population of

157,512 charities. The NCCS data were determined to be sufficiently reliable for the purposes of our report, based on interviews with NCCS officials regarding reliability procedures and observation of the sampling process.

Valid telephone numbers could not be obtained for 11 percent of the charities in the sample, and 6.8 percent of the charities did not answer the telephone after several contact attempts or did not return calls, yielding a total rate of nonresponse of 17.8 percent. We took steps to reduce errors in our estimates by pretesting the survey with charities of varying characteristics and performing computer analyses to identify inconsistencies and other indicators of errors.

We received valid responses from 493 of the 600 charities, for a response rate of 82.2 percent. Interview responses were weighted to account for the initial sampling rate and response rate. As with most surveys, our estimation assumes that nonrespondents would have answered like the survey respondents, and we do not know of any evidence about whether our respondents were different from nonrespondents. Our confidence in the precision of the results from this sample is expressed in 95 percent confidence intervals. We are 95 percent confident that the results we would have obtained had we studied the entire population are within +/- 2 percentage points of this result.

Statistics of Income Data

To estimate the number of taxpayers that claimed deductions for donated vehicles, we analyzed a random sample of tax year 2000 individual tax returns from IRS's Statistics of Income (SOI) individual tax return file. The SOI file is a stratified probability sample of income tax returns filed with the IRS. The tax year 2000 sample represented about 129 million tax returns. The SOI sample contained information on 34,942 returns where taxpayers itemized deductions and claimed a noncash contribution of over \$500. We randomly sampled 600 cases from this sample population and requested the tax returns from the IRS. Weights were adjusted to represent all taxpayers claiming noncash contributions exceeding \$500. Of the 600 cases in our sample, actual returns were available for 509 of the cases. We determined that the SOI data were sufficiently reliable for the purposes of our report based on interviews with IRS officials and testing for bias in our sample. No bias was identified in a comparison of available returns and nonavailable returns in terms of taxable income, total contributions, and several other factors.

Charity Officials

To obtain information on vehicle donation program processes and proceeds from vehicle sales, we contacted 65 charities throughout the country. The 65 charities included:

- 16 charities in our national charity survey that reported having a vehicle donation program,
- 8 charities interviewed as pretests to the survey, and
- 41 charities identified in advertisements or on taxpayer deduction claims.

Not all 65 charities provided information on all topics discussed in the report. Where information is reported, the specific number of charities that provided information related to the topic discussed is included. These examples cannot be generalized beyond the charities responding.

Third-Party Agent and Other Organizations Interviewed

We interviewed six third-party agents that provide vehicle donation program services to charities for examples of how the vehicle donation process works for their organizations and the charities they served. Some of the agents represented more than 100 different charities; however, the information we received from these agents cannot be generalized beyond the agents responding. We relied on a number of sources to identify vehicle donation third-party agents, including state attorney generals' office officials, donated vehicle advertisements, and charity officials.

To obtain information on guidance provided to donors and charities, we interviewed officials or reviewed materials from several organizations involved with charity oversight or charity fund-raising, including the Better Business Bureau, Chronicles of Philanthropy, the Independent Sector, and the American Institute of Philanthropy.

IRS and State Officials

In addressing all of our objectives, we spoke with IRS headquarters officials from the Tax Exempt and Government Entities Operating Division, the Wages and Investment Operating Division, and the Small Business/Self-Employed Operating Division. We also conducted an on-site visit to IRS's Ogden Campus to obtain information on its Form 8282 compliance program. We also interviewed the Chairperson of the IRS Vehicle Donations Working Group.

We contacted state officials based on referrals from the IRS and the National Association of State Charity Officials. We also interviewed state officials in California, Michigan, Massachusetts, Florida, Pennsylvania, South Carolina, Ohio, Oregon, Connecticut, Washington, and Texas.

Other Data Sources

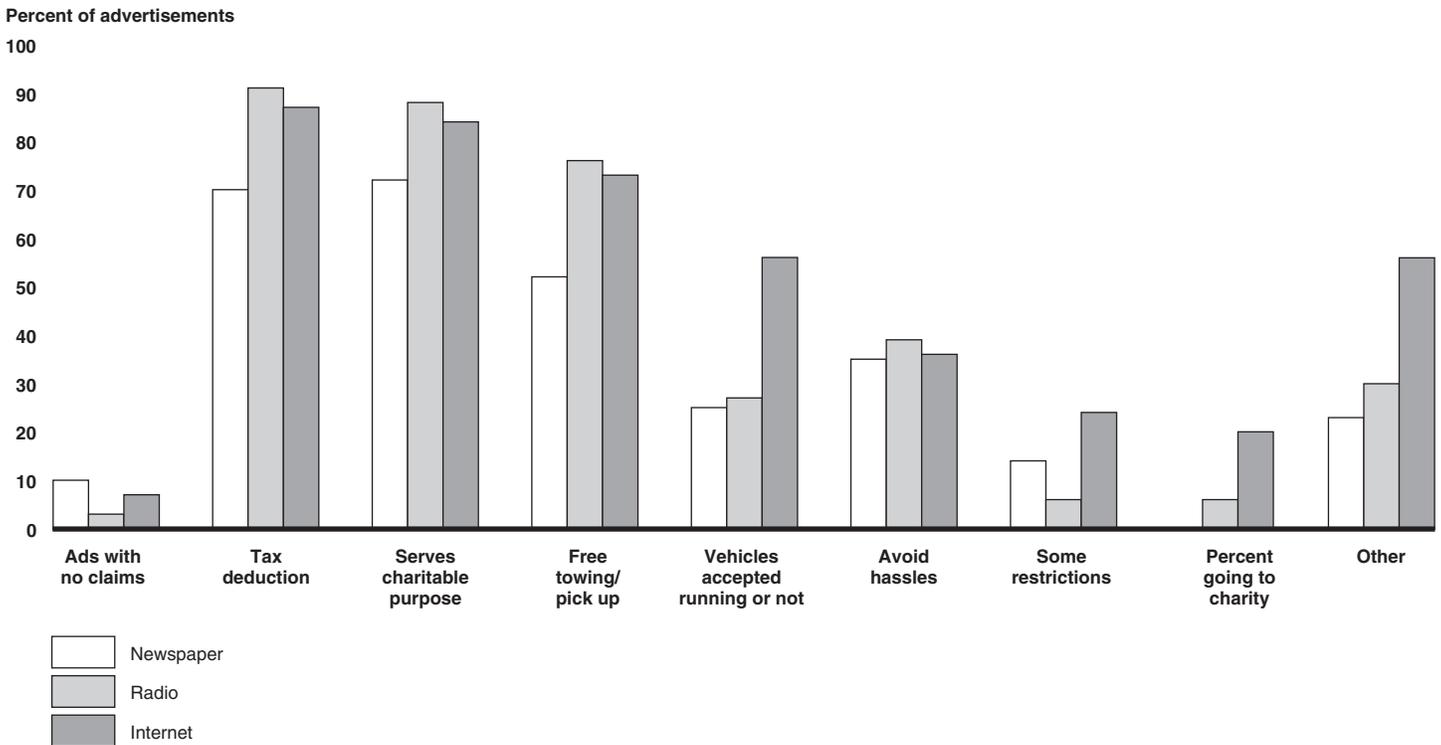
To determine the amount of proceeds charities receive from donated vehicles relative to the amounts taxpayers claimed as tax deductions, we tracked a judgmental set of donated vehicles obtained from 4 charities in 4 states. Two charities were local charities that used third-party agents to manage their vehicle donation programs; 1 was a national charity that used a third-party agent to handle processing (but not advertising) for their vehicle donation program; and the fourth was a national charity that managed its vehicle donation program in-house. The information we obtained from the charities included the vehicle description, selling price, net amount received by the charity after expenses, and donor information. Using the donor information, we requested tax return data from the IRS to determine the amounts donors claimed as deductions for their vehicles. Not all of the vehicle donors claimed deductions for their donations. Of the 70 donors the IRS was able to identify as filing returns, 12 did not itemize their taxes. Four additional cases were dropped due to data errors or missing information. We were able to track the remaining 54 vehicle donations. The individual cases or cases in aggregate are for illustration only, and cannot be used to generalize to vehicle donations overall. Our analysis of the 54 tracked vehicles is shown in appendix III.

We reported summary data from the California Office of the Attorney General regarding the percent of proceeds received by charities from vehicle donation programs using commercial fundraisers. We discussed data reliability issues with state officials and determined that the data were sufficiently reliable for the purposes of our report.

Appendix II: Sample Claims of Vehicle Donation Advertisements

Based on a review of a nonprojectable sample of vehicle donation advertisements, we found that vehicle donation advertisements most often stated that individuals could claim a tax deduction for the donation, if the donation served a charitable purpose, and the donor’s vehicle would be towed free of charge. We analyzed 147 advertisements, including 69 newspaper advertisements from a sample of 50 newspapers nationwide, 33 radio advertisements from 19 radio stations in the top 10 U.S. markets, and 44 Internet advertisements. Figure 9 identifies the most common claims made in the newspaper, radio, and Internet advertisements we reviewed.

Figure 9: Most Common Claims in Newspaper, Radio, and Internet Advertisements Reviewed



Source: GAO.

Note: Claims classified as “other” included promises that vehicles would be picked up in 24 hours, title transfer would be handled, or contributions would be used locally.

According to an IRS official, advertisement claims are potentially misleading when they do not specify that taxpayers must itemize their deductions to claim a deduction for vehicle donations, since many

taxpayers do not itemize their deductions. Of the 147 advertisements we reviewed, 117 indicated that taxpayers could claim a tax deduction, but only 7 advertisements specified that donors must itemize in order to claim a deduction.

In addition, IRS officials stated that advertisements could be misleading when they claim donors can value their vehicles at full, or maximum, market value when claiming a tax deduction, particularly when the same advertisements claim that vehicles are accepted whether they are running or not. Full or maximum market value, although not clearly defined, implies that a vehicle is in good running condition with no major mechanical defects. Fair market value equates to what a vehicle would sell for on the market, and takes into account a vehicle's condition and mileage, among other factors. Of the 147 advertisements we reviewed, 8 identified that a donor could claim full or maximum market value, while more commonly, advertisements identified that donors could claim fair market value on their tax returns when donating their vehicles.

Responsibility for oversight of advertisements is diffused. The Federal Communications Commission defers regulatory authority regarding false advertising on radio or television to the Federal Trade Commission (FTC). The FTC does not have specific jurisdiction over charities, but may become involved in cases of fraud. State officials are primarily responsible for false advertising by charitable organizations. Officials we interviewed from 2 states said that limited resources prevent them from providing broad oversight over advertisements, and that they generally review advertisements in response to consumer complaints, or when they discover that charities or third-party agents are soliciting in their state without being registered.

Table 3 identifies the number of advertisements we reviewed that specified taxpayers must itemize their deductions to claim a vehicle donation; that taxpayers could claim full, maximum, or fair market value for their deduction; and whether the advertisement referred potential donors to the IRS Web site, an accountant, the Kelley Blue Book,¹ or other source for guidance on claiming a tax deduction.

¹The Kelley Blue Book is a used car guide featuring 15 years of values for over 10,000 models of cars, trucks, and vans and is available both in print and Internet format.

Table 3: Vehicle Donation Claims Related to Tax Deductions (by medium)

	Newspaper	Radio	Internet	Total
Must itemize	1	0	6	7
Full market value	3	1	2	6
Maximum value	0	0	2	2
Fair market value	7	7	24	38
Consult IRS Web site	0	0	14	14
Consult with accountant	2	3	17	22
Kelley Blue Book	1	4	22	27
Other (e.g. IRS)	12	3	7	22

Source: GAO.

Note: Some ads contained more than one claim, so the total number of claims is greater than the 147 advertisements we reviewed.

The transcript from an actual radio advertisement identifying some of the benefits of vehicle donation programs is shown in figure 10.

Figure 10: Transcript of Actual Radio Advertisement for Vehicle Donations

That Car

What to do with that car? Donate it to the Council of the Blind! Donating a car is trouble free; you get a tax write off, and do your part for a worthy cause. The California Council of the Blind has helped in the workplace since the thirties. Simply call, we'll pick up that car, running or not, in most cases, plus boats--even real estate can be donated for a write off. Call our live operators for your free pick up now-- 800 xxx-xxxx. 800 xxx-xxxx, that's xxx-xxxx.

Source: Courtesy of Pete Palmer Advertising, San Francisco, California.

Appendix III: Selected Vehicle Donations Tracked from Donation to Taxpayer Claim for Charitable Deduction

Table 4 details 54 specific vehicle donations identifying the amount of proceeds charities receive from donated vehicle sales relative to the amounts taxpayers claim as tax deductions for donated vehicles. Information on this judgmental set of 54 vehicle donations were obtained from 4 charities in 4 states. The individual cases or cases in aggregate are for illustration only, and cannot be used to generalize vehicle donations overall.

Table 4: Vehicle Donations Tracked from Donation to Taxpayer Claim for Charitable Deduction—54 Vehicles

Vehicle as described in taxpayer documents	Vehicle gross sale price	Net proceeds (loss) to charity from vehicle sale	Donated vehicle value claimed on tax return	Gross sale price as percent of amount donor claimed	Proceeds to charity as a percent of gross sale price (loss)	Charity receipt (loss) as percent of donor claim
1990 Mercury Station Wagon	\$30	(\$130)	\$2,915	1%	(433%)	(4%)
1989 Subaru GL	\$50	(\$45)	\$3,100	2%	(90%)	(1%)
1991 Plymouth Voyager	\$40	(\$25)	\$1,700	2%	(63%)	(1%)
1993 Ford	\$25	(\$20)	\$2,000	1%	(80%)	(1%)
1988 Ford Escort	\$25	(\$20)	\$1,000	3%	(80%)	(2%)
1990 Ford Taurus	\$30	(\$15)	\$1,500	2%	(50%)	(1%)
1986 Toyota 4-Runner	\$300	\$5	\$3,950	8%	2%	0%
1981 Toyota Celica	\$100	\$5	\$500	20%	5%	1%
1991 Ford Crown Victoria	\$300	\$165	\$3,100	10%	55%	5%
1990 Nissan 240 SX	\$450	\$293	\$2,375	19%	65%	12%
1993 Chevrolet Cavalier	\$450	\$405	\$750	60%	90%	54%
1996 Ford Taurus	\$700	\$480	\$3,500	20%	69%	14%
1991 Saab 9000S	\$950	\$653	\$4,500	21%	69%	15%
1994 Saturn SL2 Sedan 4D	\$1,350	\$968	\$5,750	23%	72%	17%
1988 Toyota Camry	\$900	\$615	\$2,680	34%	68%	23%
1992 Pontiac Grand Am SE-V6	\$325	\$174	\$2,750	12%	54%	6%
1989 Toyota All Trac Wagon (Corolla)	\$600	\$390	\$1,000	60%	65%	39%
1995 Toyota 1/2 Ton Pickup	\$1,800	\$1,290	\$4,999	36%	72%	26%
1989 Plymouth Grand Voyager	\$200	\$55	\$1,900	11%	28%	3%
1980 Datsun 510	\$350	\$213	\$1,400	25%	61%	15%
1992 Lincoln Continental	\$1,200	\$1,065 ^a	\$4,675	26%	89%	23%
1989 Chevrolet Blazer S10-2DR	\$300	\$180 ^a	\$4,050	7%	60%	4%
1989 Ford Taurus	\$225	\$84 ^a	\$1,500	15%	37%	6%
1987 Chevy Pickup	\$350	\$245 ^a	\$500	70%	70%	49%
Red Honda Accord LXI 2D	\$150	\$10 ^a	\$4,175	4%	7%	0%

**Appendix III: Selected Vehicle Donations
Tracked from Donation to Taxpayer Claim for
Charitable Deduction**

Vehicle as described in taxpayer documents	Vehicle gross sale price	Net proceeds (loss) to charity from vehicle sale	Donated vehicle value claimed on tax return	Gross sale price as percent of amount donor claimed	Proceeds to charity as a percent of gross sale price (loss)	Charity receipt (loss) as percent of donor claim
1994 Dodge Caravan	\$650	\$510 ^a	\$4,535	14%	78%	11%
1993 Saturn SC 2	\$225	\$70 ^a	\$3,800	6%	31%	2%
1990 GMAC Convention	\$400	\$245 ^a	\$4,800	8%	61%	5%
1991 Toyota Camry	\$675	\$520 ^a	\$2,039	33%	77%	26%
1995 Dodge Caravan	\$900	\$715 ^a	\$4,692	19%	79%	15%
1991 Toyota Camry	\$400	\$285 ^a	\$4,500	9%	71%	6%
1988 Toyota Corolla Wagon	\$35	\$20 ^a	\$1,427	2%	57%	1%
1986 Mazda B2000 LX Long Bed	\$35	\$20 ^a	\$1,095	3%	57%	2%
1985 Volvo 760	\$35	\$20 ^a	\$2,654	1%	57%	1%
Automobile	\$50	\$35 ^a	\$395	13%	70%	9%
1987 Ford Thunderbird	\$35	\$10 ^a	\$1,595	2%	29%	1%
1994 Hyundai Elantra	\$25	\$10 ^a	\$1,450	2%	40%	1%
1988 Mazda Pickup	\$125	\$75 ^a	\$1,525	8%	60%	5%
1987 Volvo 740	\$50	\$35 ^a	\$3,000	2%	70%	1%
1986 Chrysler Town & Country	\$35	\$20 ^a	\$1,850	2%	57%	1%
1988 Olds Cutlass Wagon	\$25	\$10 ^a	\$1,000	3%	40%	1%
1987 Honda	\$70	\$10 ^a	\$1,500	5%	14%	1%
1987 Subaru	\$25	\$10 ^a	\$1,890	1%	40%	1%
1987 Volvo	\$50	\$35 ^a	\$2,175	2%	70%	2%
1996 Dodge Caravan	\$110	\$60 ^a	\$1,800	6%	55%	3%
1986 Nissan Maxima	\$40	\$15 ^a	\$1,250	3%	38%	1%
1990 Ford Taurus L	\$25	\$10 ^a	\$1,105	2%	40%	1%
1988 Oldsmobile Cutlass	\$35	\$20 ^a	\$900	4%	57%	2%
1983 Audi 5000 4DR Turbo	\$100	\$0	\$1,500	7%	0%	0%
1985 Toyota Celica	\$250	\$10	\$2,000	13%	4%	1%
1983 GMC Jimmy	\$375	\$31	\$2,400	16%	8%	1%
1982 Toyota Starlet	\$300	\$22	\$1,225	24%	7%	2%
1983 Volvo 240 2 door	\$450	\$55	\$2,000	23%	12%	3%
1991 Plymouth Acclaim Sedan 4D	\$475	\$52	\$3,285	14%	11%	2%

Source: GAO summary of specific vehicle donations made to 4 charities and associated tax claims for those donations. All dollar amounts rounded to the nearest dollar.

^aExcluding expenses associated with advertising.

Appendix IV: Vehicle Donation Guidance

Government and consumer organizations provide guidance to donors to assist them in making informed decisions about donating vehicles. Guidance is also available to charities to assist them in selecting, hiring, and managing third-party agents. A partial list of resources is included in table 5.

Table 5: Sources of Guidance in Making Vehicle Donation Decisions

Sources	Available information
Internal Revenue Service www.irs.gov	<ul style="list-style-type: none"> • Lists tax exempt organizations that may qualify donors for tax deductions (Pub. 78). IRS also suggests Guidestar (see below) as a resource. • Describes contributions that qualify for tax deductions and recordkeeping requirements (Pub. 526). • Describes information necessary for donors to value and deduct noncash contributions (Pub 561). • Provides guidance for exempt organizations on documenting charitable contributions (Pub. 1771). • Provides an annual brochure called Exempt Organizations Implementing Guidelines, Vehicle Donations, that advises how exempt organizations can avoid problems with vehicle donation programs.
Federal Trade Commission www.ftc.gov	Provides tips on how to recognize and avoid deceptive solicitations. In conjunction with state officials ^a launched Operation Phony Philanthropy, to identify fraudulent fundraising activities, none of these cases to date have involved vehicle donations.
State charity regulators -The National Organization of State Charity Officials www.nasconet.org	<ul style="list-style-type: none"> • Lists contacts for state regulators overseeing charitable solicitations, including those with vehicle donation programs, and general information state regulators need to know.
-Individual state Web sites, such as: California Attorney General www.caag.state.ca.us Michigan Attorney General www.michigan.gov/ag New York Attorney General www.oag.state.ny.us	<ul style="list-style-type: none"> • Provide information to donors on making contribution decisions, including financial information on charities or their fund-raisers.
Guidestar www.guidestar.org	<ul style="list-style-type: none"> • Provides a national database of U.S. charitable organizations, and general information relevant to IRS-recognized nonprofits.
Better Business Bureau's Wise Giving Alliance www.give.org/tips/usedcar.asp	<ul style="list-style-type: none"> • Provides a Vehicle Donations Checklist that, among its seven tips, advises the donor to take a photo of the car for tax records and to keep copies of current classified ads or guide value estimates for similar vehicles. • Provides general standards charities should meet, including those with vehicle donation programs, enabling donors to evaluate (1) how charities are governed, (2) the ways they spend money, (3) the truthfulness of their representations, and (4) their willingness to disclose basic information to the public. Standards also help charities maintain overall good governance of their vehicle donation programs.

Appendix IV: Vehicle Donation Guidance

Sources	Available information
Charity Navigator www.charitynavigator.org	<ul style="list-style-type: none">• Provides advice to donors of used vehicles, such as urging donors who have to use third-party agents to research the percentage the charity ultimately receives.
American Institute of Philanthropy www.charitywatch.org	<ul style="list-style-type: none">• Provides search capability to locate tax exempt organizations that may qualify vehicle donors for tax deductions.• Provides tips to donors of used vehicles, such as encouraging them to get a receipt from the charity for their vehicle donation.
Chronicle of Philanthropy http://philanthropy.com	<ul style="list-style-type: none">• Provides general information for subscribers on all matters involving philanthropic enterprises, including fund-raisers who may process vehicle donations.

Source: GAO analysis of government and consumer organizations guidance.

^aParticipating states included Connecticut, Florida, Illinois, Kansas, Massachusetts, Maine, Michigan, Minnesota, Mississippi, North Dakota, New Jersey, New York, Oregon, Pennsylvania, South Carolina, and South Dakota.

Appendix V: Comments from the Internal Revenue Service



COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

November 10, 2003

Ms. Cathleen A. Berrick
Director, Homeland Security and Justice Issues
United States General Accounting Office
Washington, DC 20548

Dear Ms. Berrick:

I welcome the opportunity to reassess our current programs in light of your draft report titled *VEHICLE DONATIONS: Benefits to Charities and Donors, but Limited Oversight*. Your draft report provides useful data on vehicle donation programs of charities.

The draft report contains two recommendations. The first is that we assess our compliance program for generating audit leads on taxpayers who may have overstated their non-cash charitable contribution deductions.

I agree with this recommendation. We plan on reassessing the merits of the program by determining the level of noncompliance. After this review, we will determine whether the program should be modified.

The second recommendation in the draft report is that we consider maintaining and transcribing filed Forms 8282. This recommendation stems from your review of the work of a task force on donated property we previously established. This task force has been developing proposals to address technical issues, educational initiatives, and examination issues and procedures. One of the task force's preliminary recommendations deals with the retention and transcribing of Form 8282.

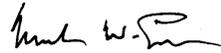
I agree with your recommendation to assess the proper treatment of Form 8282 by the Internal Revenue Service. Maintaining and transcribing these forms would help us verify if charities have filed required Form 8282, and, if so, whether they are accurate. Our specific decisions on the second recommendation will depend on and correspond with the decisions we make on your first recommendation. Of course, resource constraints will be a factor in all decisions in this area. We are also looking at whether other alternatives ensure compliance with reporting requirements by charities. In this regard, we are redesigning Form 990 (Return of Organization Exempt from Income Tax). As part of this process, we will consider whether we should request additional information on in-kind contributions in general and other information relating to the filing of Form 8282. For Form 8282, the information requested on Form 990 might include the number of forms filed during the year, the specific kinds of property represented on the forms, and the total value of each category of property reported. This would tell us which organizations are filing these forms and the relative sizes of the programs.

2

We have already taken steps to improve reporting of vehicle donation programs. The donated property task force has revised the Form 990 instructions to provide a vehicle donation example for organizations filing 2003 returns. Your report also accurately reflects our continued partnership with the states in this area and our active role in public education. As your report notes, we are developing a brochure for charities on how to avoid problems in their vehicle donation programs. We will publish this brochure no later than March 31, 2004. We will also publish a brochure for potential vehicle donors during the fiscal year.

If you have any questions, or if you would like to discuss this response in more detail, please call Steven T. Miller, Director, Exempt Organizations, at 202-283-2300.

Sincerely,



Mark W. Everson

Appendix VI: Staff Acknowledgments

Acknowledgments

Leo Barbour, Carl Barden, Keira Dembowski, Michele Fejfar, Tre Forlano, Lemuel N. Jackson, Monica Kelly, Rosa Leung, Brittini Milam-Bell, Amy Rosewarne, Sam Scrutchins, Addie Spahr, and Wendy Turenne made key contributions to this report.

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