

One of the negative aspects of buying a new car is the annoyance involved with getting rid of your old car. Many individuals find the trade-in allowance offered by dealers (if any) to be well below the car's true value. But the alternative of selling the car on your own involves the expense of advertising as well as the commitment of time needed to meet with potential buyers, accompany them on test drives, negotiate a fair price, etc.

For these reasons, some taxpayers consider a different option for their old cars: donating them to charity. An increasing number of charities have turned to car-donation programs. You may have seen ads from some of these organization in your local newspaper urging individuals to donate their old cars. The donation approach saves you the trouble of trying to sell the car. Many charities offer the added convenience of picking up the car at your home.

In taking this approach, however, bear in mind that the amount of the deduction you will be allowed to claim is subject to special limitations. In many cases, the deduction you can claim is less than your view of the car's value. If you compare the tax savings from a donation with a dealer's trade-in offer, the offer may not seem as small.

For cars worth over \$500, the deduction will be the amount for which the charity actually sells the car, if it sells the car without materially improving it. This limit applies to any motor vehicle designed for road use, including vans and trucks, as well as to boats and airplanes.

Since most charities do sell the cars they receive, it's likely that your donation will be limited to the actual sale price. Furthermore, these sales are often at auction or in bulk and typically result in sales below "Blue Book" value. Also, you won't know the amount of your deduction until the charity has sold the car and reported the sale proceeds to you (see below).

Only if the charity uses the car in its operations or materially improves the car before selling it will your deduction be based on the car's fair market value at the time of the donation. In that case, fair market value is usually set according to the "Blue Book" listings for used cars published by the National Automobile Dealers Association. IRS will accept the value in the "Blue Book" or another established used car pricing guide if the guide lists a sales price for a car that is the same make, model, and year, sold in the same area, and in the same condition, as the car you donated. In some cases, this value will exceed the amount you could actually get on a sale.

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

In any case, you must itemize your deductions to get the tax benefit; you can't take a deduction for a car donation if you take the standard deduction.

Making sure the charity qualifies and is legitimate. You won't be entitled to a charitable deduction unless you donate your car to an eligible charitable organization. In some cases, the transaction is more complex because private fund-raisers may be operating car donation programs on behalf of charities. This is legitimate as long as the private company is acting as the agent for a qualified charity.

Proving your right to the deduction. If you donate your used car to charity, make sure you take the steps needed to substantiate your tax deduction.

If the charity sells the car, you will need a written acknowledgement from the charity containing your name and tax ID number, the vehicle ID number, a certification that it was sold at arm's length to an unrelated party, the gross proceeds of sale, and statement that the deduction cannot exceed the proceeds. The charity should provide you with this acknowledgement within 30 days of the sale.

If, instead, the charity will use (or materially improve) the car, the acknowledgement needs to certify the intended use (or improvement) and the intended duration of the use, along with a statement that the car will not be sold before completion of the use or improvement. In this case, the acknowledgement should be provided within 30 days of the donation.