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## **Tax Guidelines for Vehicle Donations** **Special Rules Apply To Charitable Deductions**

If you expect to itemize deductions in 2018, you can generally claim tax benefits for donating property to charity, in addition to cash contributions made to qualified organizations. For instance, you might donate a car or other vehicle that will be used to further the charity's tax-exempt function. In fact, certain charities even specialize in vehicle donations.

However, the tax rules in this area are tricky. If you are not careful, you could wind up with a deduction for an amount that is less than the car's fair market value (FMV) – or even no deduction at all.

Background: Prior to 2005, taxpayers were operating under a more favorable set of rules for car donations. All you had to do is to arrange for the charity to receive the car, drop it off and then claim a deduction based on FMV. An estimated value for each make and model is listed in Kelley Blue Book (KBB) and similar car-buying guides.

But the IRS noticed that taxpayers were being overly aggressive in claiming charitable deductions for vehicles. Frequently, they would inflate the FMV without substantiating the vehicle's condition or worth. So Congress decided to tighten things up.

Under current law, if you use a buying guide such as the KBB to establish the vehicle's FMV, the deduction may be reduced if the charity then sells the vehicle, a frequent occurrence. For example, if you have stated that the FMV of a car is \$5,000 when you donate it and the charity subsequently sells it for \$3,500, your deduction is limited to \$3,500. Another key requirement: If your donated vehicle sells for less than \$500, the deduction is equal to its FMV, up to \$500.

The charity must provide you with a written substantiation of the deduction value within 30 days of your contribution or, if it sells the vehicle, within 30 days of the sale. Save this documentation as proof in case the IRS ever challenges the deduction amount. If you have not heard from the charity within 30 days of a vehicle donation, contact them immediately to obtain the written statement.

Generally, deductions for vehicles are lower than they were in the days of yore. One consolation: If the charity "materially improves" the vehicle for its own use – for instance, it repairs a bent fender or installs a new feature like a rear view camera – you can still deduct the vehicle's FMV. Depending on your situation, you might search for a charitable organization that is willing to fix up the vehicle for its own use.

Under the latest tax rules, including the new Tax Cuts and Jobs Act (TCJA), you can still claim deductions for donations of vehicles. However, fewer taxpayers may be itemizing deductions, due to several TCJA provisions, including an increase in the standard deduction.

Finally, other tax law provisions may affect charitable deductions on your personal return. Consult with your tax adviser before you drop off the keys.