



DEPARTMENT OF THE TREASURY OFFICE OF PUBLIC AFFAIRS

For Immediate Release
June 3, 2005

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TREASURY AND IRS ANNOUNCE NEW RULES ON TAX TREATMENT OF DONATIONS OF AUTOMOBILES TO CHARITY

WASHINGTON, DC -- Today the Treasury Department and IRS released guidance on charitable deductions for donated vehicles. The American Jobs Creation Act (AJCA) generally limits the deduction for vehicles to the actual sales price of the vehicle when sold by the charity, and requires donors to get a timely acknowledgment from the charity in order to claim the deduction.

The AJCA does provide some limited exceptions under which a donor may claim a fair market value deduction. Under the AJCA, if the charity makes a significant intervening use of a vehicle—such as regular use to deliver meals on wheels-- the donor may deduct the full fair market value. The guidance issued today explains what a significant intervening use may include. For example, driving a vehicle a total of 10,000 miles over a one year period to deliver meals is a significant intervening use.

The AJCA also allows a donor to claim a fair market value deduction if the charity makes a material improvement to the vehicle. Under the guidance, a material improvement means major repairs that significantly increase the value of a vehicle, and not mere painting or cleaning.

The guidance announced today also provides an additional exception to the sale price limit that was not included in the AJCA. Today's guidance permits a donor to claim a deduction for the fair market value of a donated vehicle if the charity gives or sells the vehicle at a significantly below-market price to a needy individual, as long as the transfer furthers the charitable purpose of helping a poor person in need of a means of transportation.

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The guidance also explains how to determine fair market value if one of these three exceptions applies. Generally, vehicle pricing guidelines and publications differentiate between trade-in, private-party, and dealer retail prices. The guidance provides that the fair market value for vehicle donation purposes will be no higher than the private-party price.

The AJCA also requires a donor to substantiate a deduction with an acknowledgement from the charity that the deduction either reflects the sale price or that one of the three exceptions applies. The AJCA imposes a penalty on the charity for failure to provide a proper acknowledgement. The guidance also explains the requirements for the content and the due dates for acknowledgements.

The Treasury Department and IRS request comments on the guidance and suggestions for future guidance. The comment period will be open for the next 90 days.

A copy of the guidance is attached.

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