

NEWS RELEASE

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AICPA Tells Taxpayers to Check IRS Rules Before Deciding to Donate Used Car to Charity

Save the Deduction or Make a Bigger Down Payment on a New Car To Get Extra Mileage out of the Deduction

Washington, DC (August 26, 2008) – High gas prices are causing many Americans to think about buying a more fuel efficient vehicle, but if you think you can donate your old car to charity and then take a hefty tax deduction, the American Institute of Certified Public Accountants advises you to brush up on the rules because they may be different than you remember.

“Taxpayers usually can’t write off the full market value of a vehicle they donate to charity, but many taxpayers don’t realize that the federal rules changed in 2005,” Tom Ochenschlager, vice president of taxation for the AICPA, said.

“Taxpayers have to meet strict IRS requirements in order to claim more than a \$500 deduction,” Ochenschlager said. “Many donated vehicles are clunkers,” he said. “They don’t have a high resale value, and the charities don’t get much money for them.” Ochenschlager said the taxpayer’s deduction can’t be more than what the charity received, except under special circumstances:

- The charitable organization uses it to perform some of its regular charitable activities – for example, using the vehicle to deliver food if providing food is part of the organization’s regular function.
- The charity makes a major improvement to the vehicle – replacing the engine would qualify, but not a minor repair or routine maintenance.
- The charity gives the vehicle away or sells it for significantly less than fair market value to someone who is underprivileged, so long as the charity’s purpose is to provide vehicles to poor or distressed individuals who need one.

Ochenschlager said if one of these conditions is met, the taxpayer may take a deduction for the vehicle’s fair market value. “It’s a good idea to check with the charity to find out its plans for the vehicle before you donate it, so you’ll know whether a fair market value deduction is possible,” he said.

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Page 2 of 2

For cars in good condition that will be used by the charity as described above, he recommended consulting a used car buying guide, such as the Kelley Blue Book, to determine the fair market value. He said taxpayers must use the private party sale estimate, not the dealer retail value of a similar vehicle, as the basis for the fair market value.

“Don’t forget to get the necessary paperwork to substantiate the deduction,” Ochsenschlager cautioned. He said taxpayers claiming more than \$500 have to get a receipt from the charity substantiating the contribution on IRS Form 1098-C. The form includes the donor’s name and taxpayer identification number, the vehicle identification number and whether any of the three exceptions described above apply.

“Get extra mileage out of the deduction by making a bigger down payment on a new car or by putting the money in your automobile repair fund,” Ochsenschlager said. “You’ll have reduced the overall cost of financing the new car or saved some money for future costs.”

For ways to save, visit the AICPA’s 360 Degrees of Financial Literacy Web site (www.360financialliteracy.org). The Institute leads this national public-education effort and sponsors a related Ad Council campaign, Feed the Pig (www.feedthepig.org). Feed the Pig is designed to help Americans ages 25 to 34 years old save for long-term financial security.

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