

Vehicle Donation  
Ways and Means

Statement for the Record of Donna Brown  
President of the Mountain State Council of the Blind,  
The West Virginia Affiliate of the American Council of the Blind  
Submitted to the Committee on Ways and Means  
United States House of Representatives  
On Charitable Vehicle Donations  
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On behalf of the Mountain State Council of the Blind (MSCB), I am pleased to provide a statement for the record regarding charitable deductions in the form of vehicle donations.

MSCB is an active state affiliate of the American Council of the Blind (ACB). MSCB is a membership organization whose members are blind, visually impaired, and fully sighted individuals who are concerned about the dignity and well-being of blind people throughout the nation.

Established in 2003, MSCB is a growing organization of people who are blind, with more than 60 members throughout West Virginia and three local chapters.

Since its original authorization in 1986, charitable vehicle donation has become a critical fundraising tool for over 5,000 large and small charities like MSCB. As these programs proliferated, so did concern about abuses. In November 2003, the Government Accountability Office (GAO) reported on the benefits to charities and donors that resulted from vehicle donations. Before 2005, a taxpayer could deduct the fair market value (FMV) of vehicles donated to charity. Under Section 170 of Title 26 of the US Code, a donor could claim FMV as long as it was under \$5000. However, some donors were fraudulently claiming excessive deductions and some charities were shortchanged by unscrupulous third-party contractors who manage their car donation programs. According to the GAO, these problems were exacerbated by insufficient IRS oversight to detect or police these problems.

In its FY2005 budget request, the Administration proposed reforming the rules governing vehicle donations by requiring a qualified appraisal on all donated vehicles. The final changes, included in the American Jobs Creation Act of 2004, limited deductions over \$500 to the proceeds of eventual sale of the vehicle by the charity, regardless of appraised value. Only if the charity keeps and uses the car to advance its own mission, rather than selling it for the resulting revenue, can the donor now deduct FMV exceeding \$500.

The new rules took effect for tax year 2005. Unfortunately, since then ACB and MSCB have felt the consequences of this regulation and has witnessed revenues from vehicle donations shrink by 85%, and the number of vehicles that have been donated plummeted by 94%.

Today, a taxpayer with an older used car in poor condition can call many charities nationwide to have the vehicle towed at no cost and then claim a FMV deduction up to \$500. However, a prospective donor with a newer-model car in good condition has no idea what deduction will be allowed until the vehicle is actually sold. That sale may not occur until months later, forcing the donor to roll the dice on the final deduction amount.

During the 2004 debate, proponents argued that the changes would not add new burdens on vehicle donors or adversely impact charitable giving. To the contrary, the changes have seriously disrupted charitable giving and forced many charities to curtail services to beneficiaries.

To feel informed enough to decide whether to donate a vehicle, taxpayers need a reasonable degree of certainty about the resulting deduction. Otherwise, alternatives such as a private sale, dealer trade-in--or even sale of the vehicle for its scrap value--become more attractive. This is not what the Congress intended.

The original 1986 statute establishing car donations in the federal tax code explicitly states congressional intent to *encourage* charitable giving. The changes have affected the volume and quality of donated vehicles; and press coverage has exacerbated the public perception of car donation as a viable option.

Charities which had operated successful vehicle donation programs, either independently or through third-party fundraisers, have been hit hard. While few major charities have initiated or expanded vehicle donation programs over the past six years, many have curtailed services and/or abandoned car donation altogether.

In December 2006, the GAO at Congress's request, undertook a follow-up review of the impact of the changes on donors, charities, and the IRS. The request to GAO expressed concern about unanticipated consequences of the changes and that the IRS had not made significant progress in improving oversight and enforcement over these transactions.

In May 2008, an IRS analysis of non-cash charitable contributions on itemized tax returns in 2005--the year the changes took effect--showed that the number of automobile donations declined 67 percent from the previous year, from about 900,000 in 2004 to 297,000 in 2005. The IRS further reported that the value of charitable deductions claimed by taxpayers for these gifts dropped by 80.6 percent, from \$2.4 billion to \$470 million. In short, taxpayers donated far fewer cars--and disproportionately withheld cars of greater value to the charities. The vehicle donation numbers dropped steeply even though overall non-cash charitable contributions increased by 10.4 percent--with some types of non-cash contributions increasing by as much as 64 percent. The IRS explicitly attributed the decline in vehicle donations to the 2004 change in law.

Based on these reports and testimonials from charities, H.R. 860 was introduced by Representatives David Reichert and John Larsen in the 112<sup>th</sup> Congress to restore certainty to prospective car donors about the resulting deduction. That bill garnered 333 congressional cosponsors--from coast to coast, urban and rural districts and across the political spectrum. In fact, 27 current members of the Ways and Means committee, including the newest member of the committee, Rep Renacci (R-OH), cosponsored the legislation. The bill permits donors to claim FMV up to \$2500 and requires the IRS to issue new guidance for donors and charities on how to properly calculate FMV. Claims of value exceeding \$2500 would require a certified appraisal. The bill would maintain IRS reporting requirements for both taxpayers and charities--and retain penalties for false reporting--without scaring away donors altogether.

While the Mountain State Council of the Blind actively supported this legislation, we understand that there could be other ways to solve this critical issue that we face today. We were very encouraged by the large number of cosponsors in the last Congress and wish to reengage this committee on this issue as the subject of charitable deductions continues in the weeks and months to come.

Thank you very much.