IRS GUIDANCE EXPLAINS RULES FOR VEHICLE DONATIONS

Notice 2006-1 provides guidance on reporting obligations to donee organizations that receive contributions of qualified vehicles. It instructs the donee on how, where, and when to report to the IRS the information contained in the contemporaneous written acknowledgment that the donee provides to the donor. It supplements the interim guidance issued in Notice 2005-44, discussed below. Notice 2006-1 also notes that Form 1098-C will be revised to elicit the additional information required to be included in a contemporaneous written acknowledgment as a result of technical amendments contained in the Gulf Opportunity Zone Act of 2005. These revisions have since been made.

In Notice 2005-44, the IRS and Treasury explain rules adopted in the American Jobs Creation Act of 2004, which (1) generally limits the deduction to the actual sales prices of the vehicle when sold by the donee charity, and (2) requires donors to get a timely acknowledgment from the charity to claim the deduction.

Donors may claim a deduction of the vehicle’s fair market value under the following circumstances:

- The charity makes a significant intervening use of the vehicle, such as using it to deliver meals on wheels.
- The charity makes a material improvement to the vehicle, i.e., major repairs that significantly increase its value and not mere painting or cleaning.
- The charity donates or sells the vehicle to a needy individual at a significantly below-market price, if the transfer furthers the charitable purpose of helping a poor person in need of a means of transportation.

The Service has revised Form 1098-C, which is used to provide the written acknowledgment. Finally, Notice 2006-1 provides guidance on the new penalties imposed on donee organizations that provide a false or fraudulent acknowledgment of a vehicle donation, or fail to furnish the acknowledgment properly.