

GAO

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VEHICLE DONATIONS

Taxpayer Considerations
When Donating Vehicles To
Charities

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Highlights of [GAO-03-608T](#), testimony before the Senate Finance Committee.

Why GAO Did This Study

According to the Internal Revenue Service (IRS), charities are increasingly turning to vehicle donation programs as a fund-raising activity, resulting in increased solicitations for donated vehicles. Therefore, to make informed decisions about donating their vehicles, taxpayers should be aware of how vehicle donation programs operate, the role of fund-raisers and charities in the vehicle donation process, and IRS rules and regulations regarding allowable tax deductions. Due to the increased use of vehicle donation programs, GAO was asked to describe (1) the vehicle donation process, (2) the amount of proceeds received by charities and fund-raisers, (3) donor tax deductions, and (4) taxpayer cautions and guidance.

What GAO Recommends

GAO is not recommending executive action. However, based on guidance issued by the IRS and other sources, GAO identified several steps that taxpayers should take before donating their vehicles and claiming tax deductions. These steps include

- verifying that the recipient organization is tax-exempt,
- asking questions about vehicle donation proceeds,
- deducting only the fair market value of the vehicle, and
- following state laws regarding title transfer for vehicles.

www.gao.gov/cgi-bin/getrpt?GAO-03-608T.

To view the full testimony, click on the link above. For more information, contact Cathleen A. Berrick at (202) 512-3404, or berrickc@gao.gov.

VEHICLE DONATIONS

Taxpayer Considerations When Donating Vehicles to Charities

What GAO Found

Revenue from donated vehicles is a welcomed, and sometimes crucial, source of income for a number of charities. Donors, by following available guidance and making careful selection of charities for their donations, can provide charity support while benefiting themselves through tax deductions or disposing of unwanted vehicles.

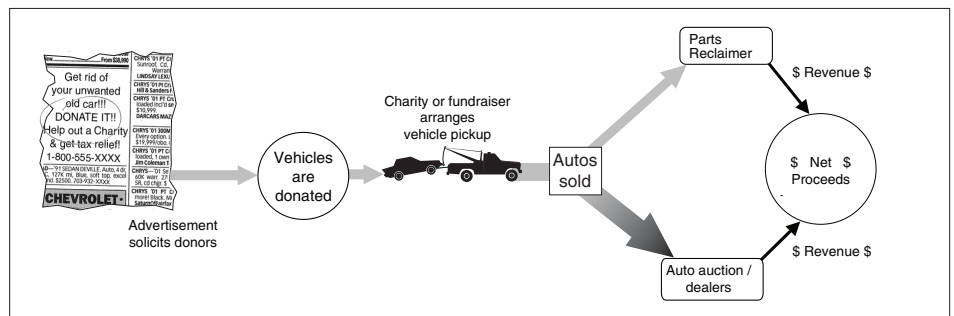
Taxpayers generally first learn about vehicle donation programs through advertisements. Interested donors call the advertised number and either reach a charity that operates its program in-house, or a third-party fundraiser acting on the charity's behalf. The charity or fund-raiser asks questions of the potential donor regarding the vehicle, and then collects and sells the vehicle for proceeds.

The proceeds a charity receives from a vehicle donation may be less than what a donor expects. Two factors contribute to this difference. First, charities often sell vehicles at auto auctions for wholesale prices rather than the prices donors may receive if they sold their vehicles themselves. Second, vehicle processing costs—whether the charity's or the fundraiser's—as well as the fund-raiser's portion of net proceeds further reduces the amount of proceeds a charity receives.

Of the 129 million individual returns filed for tax year 2000, an estimated 0.6 percent, or 733,000 returns, had tax deductions for vehicle donations. These deductions lowered taxpayers' income tax liability by an estimated \$654 million of the \$1 trillion tax liability reported on returns.

To assist donors in making decisions regarding vehicle donations, IRS and other organizations have issued guidance on steps potential donors should take before making vehicle donations. These steps include verifying that the recipient organization is tax-exempt, asking questions about vehicle donation proceeds, and deducting only the fair market value of the vehicle on tax returns.

The Vehicle Donation Process



Source: GAO.

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss our ongoing work on vehicle donation programs. According to the Internal Revenue Service (IRS), an increasing number of charities are turning to vehicle donations as an effective way to raise money. In order to make informed decisions about these donations, however, taxpayers should be aware of how vehicle donation programs operate, the role of charities and third-party fund-raisers in the vehicle donation process, and IRS rules and regulations regarding allowable tax deductions.

The tax code generally allows taxpayers to deduct vehicle donations and other noncash contributions from their federal taxes if the donations go to certain qualified organizations such as churches and most nonprofit charitable, educational, and medical organizations. There is no national data identifying the percentage of charities that operate vehicle donation programs,¹ or the number of third-party fund-raisers that solicit donated vehicles on charities' behalf.

The proceeds from vehicle donations can be an important, and sometimes crucial, source of support for charities. One charity reported that starting a vehicle donation program helped it avoid a potential deficit after it had to cancel a major fund-raising event due to the events of September 11, 2001. Other charities we spoke with estimated that vehicle donations made up from less than 1 percent to about 98 percent of their respective budgets. We plan to conduct a nation-wide survey of charities to determine their use of vehicle donation programs, and the importance of the programs to their operations.

Because charities have increasingly turned to vehicle donation programs to raise funds, interest has been raised regarding how these programs operate. Accordingly, you asked us to describe how vehicle donation programs work, as well as information taxpayers should be aware of when donating their vehicles. Today, I will discuss (1) the vehicle donation process, (2) the amount of proceeds received by selected charities and

¹ We use the term "vehicle donation" to refer to vehicles, boats, and farm equipment donated to a charity, although vehicles are most commonly donated. The term "vehicle donation program" refers to situations wherein a charity officially solicits donated vehicles, rather than occasionally accepting unsolicited vehicles.

commercial fund-raisers, (3) donor tax deductions, and (4) taxpayer guidance and cautions.

For my statement today, we relied on several sources, including an analysis of donor surveys regarding vehicle donations conducted by two charities, vehicle donation advertisements, and a sample of tax returns where taxpayers claimed deductions for donated vehicles. To determine how vehicle donation programs work, we also interviewed officials of IRS, 10 states, 17 charities, 4 fund-raisers, and 5 related interest groups. We began our review in October 2002, and plan to issue a final report in September 2003.

In summary, our work to date shows the following.

- There are two basic types of vehicle donation programs: those operated in-house by charities and those operated by third-party fund-raisers. For in-house programs, charities advertise for donated vehicles, pick up the vehicles, and sell the vehicles, generally at auto auctions or they salvage the vehicles for parts. For fund-raiser programs, fund-raisers generally perform the advertising, pick up, and selling functions, and also retain a portion of the net vehicle proceeds, after expenses. Individuals generally learn about vehicle donation programs through advertisements. A small percentage of the advertisements we reviewed could potentially mislead donors regarding allowable tax deductions.
- Charities operating in-house vehicle donation programs, and those using the services of third-party fund-raisers, consider proceeds received from vehicle donations as a welcome source of revenue. However, the total proceeds a charity receives from a vehicle donation may be less than what a donor expects. We identified two factors that contribute to this difference. First, charities and fund-raisers often sell vehicles at auto auctions and receive wholesale prices rather than the prices donors might receive if they sold their vehicles to private parties. Second, vehicle processing and fund-raising costs are subtracted from vehicle revenue, further reducing proceeds. Although charity proceeds may be less than what a donor expects, results of donor surveys identified that in addition to supporting charitable causes, individuals most often donated their vehicles in order to claim a tax deduction, or to dispose of an unwanted vehicle.
- Of the 129 million individual returns filed for tax year 2000, an estimated 0.6 percent, or 733,000 returns, had tax deductions for vehicle

donations. The vehicle donation deductions totaled an estimated \$2.5 billion of the \$47 billion in noncash contributions claimed. The vehicle donations deductions lowered taxpayers' income tax liability by an estimated \$654 million of the \$1 trillion tax liability reported on returns.

- Because of the number of charities that are involved in vehicle donation programs, IRS and other organizations have issued guidance on steps potential donors should consider before donating their vehicles to charity and claiming associated tax deductions. These steps include verifying that the recipient organization is a tax-exempt charity, asking questions about vehicle donation proceeds, deducting only the fair market value of the vehicle, and following state laws regarding title transfers for vehicles. In addition, in 2001 IRS created a cross-functional Donated Property Task Force to study issues surrounding donated property, including vehicle donation programs, and identify methods to monitor this area.

I would now like to discuss these areas in more detail.

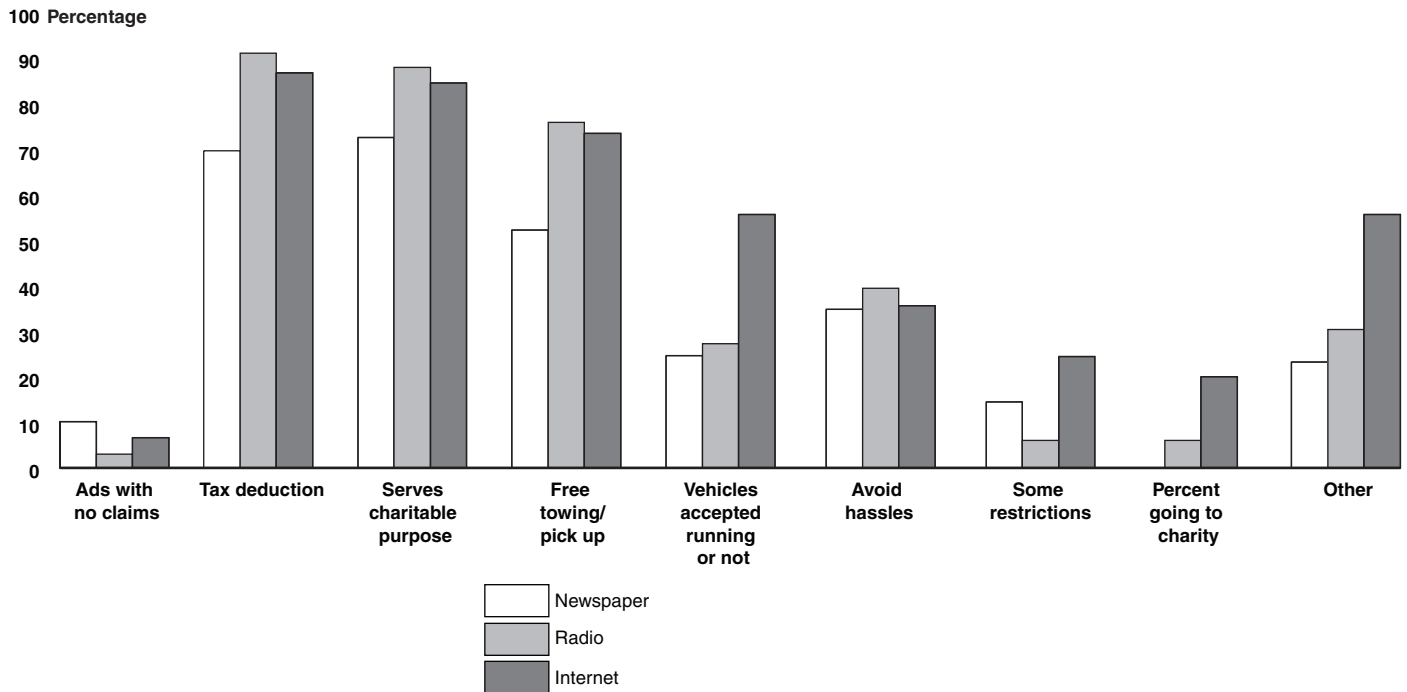
The Vehicle Donation Process

Individuals often first learn about vehicle donation programs through advertisements. Vehicle donation advertisements can be found on billboards, truck banners, and television, as well as in newsletters and even on small paper bags. Some of the most common mediums for vehicle donation advertisements include the radio, newspapers, and the Internet.

Based on a sample of advertisements we reviewed,² we found that advertisements for vehicle donations often identified that individuals could claim tax deductions for the donations, the donations served charitable purposes, and the donors' vehicles would be towed free of charge. Figure 1 identifies the most common claims made in the newspaper, radio, and Internet advertisements we reviewed.

² We analyzed 147 advertisements for vehicle donations, including 69 newsprint advertisements from a sample of 50 newspapers nationwide, 33 radio advertisements from 19 radio stations in the top 10 U.S. markets, and 45 Internet advertisements. Our results cannot be projected to all vehicle donation advertisements.

Figure 1: Most Common Claims in Newspaper, Radio, and Internet Advertisements Reviewed



Source: GAO.

Note: GAO analysis of 147 vehicle donation advertisements. Claims classified as “other” included promises that vehicles would be picked up in 24 hours, title transfer would be handled, or contributions would be used locally.

IRS has expressed concern about some vehicle donation advertisements.³ According to an official from IRS’s Tax Exempt Division, tax deduction claims are potentially deceptive when they do not specify that taxpayers must itemize their deductions to claim a vehicle donation, since many taxpayers do not itemize. Of the 147 advertisements we reviewed, 117

³ Responsibility for oversight of advertisements is diffused. The Federal Communications Commission defers regulatory authority regarding false advertising on radio or television to the Federal Trade Commission (FTC). FTC is charged with taking action against unfair or deceptive acts that affect commerce. FTC does not have specific jurisdiction over charities, but may become involved in cases of fraud. State officials are primarily responsible for false advertising by charitable organizations. Officials we interviewed from two states said that limited resources prevent them from providing broad oversight over advertisements, and that they generally review advertisements in response to consumer complaints, or when they discover that charities or fundraisers are soliciting in their state without being registered.

identified that taxpayers could claim a tax deduction, but only 7 advertisements specified that donors must itemize in order to claim a deduction.

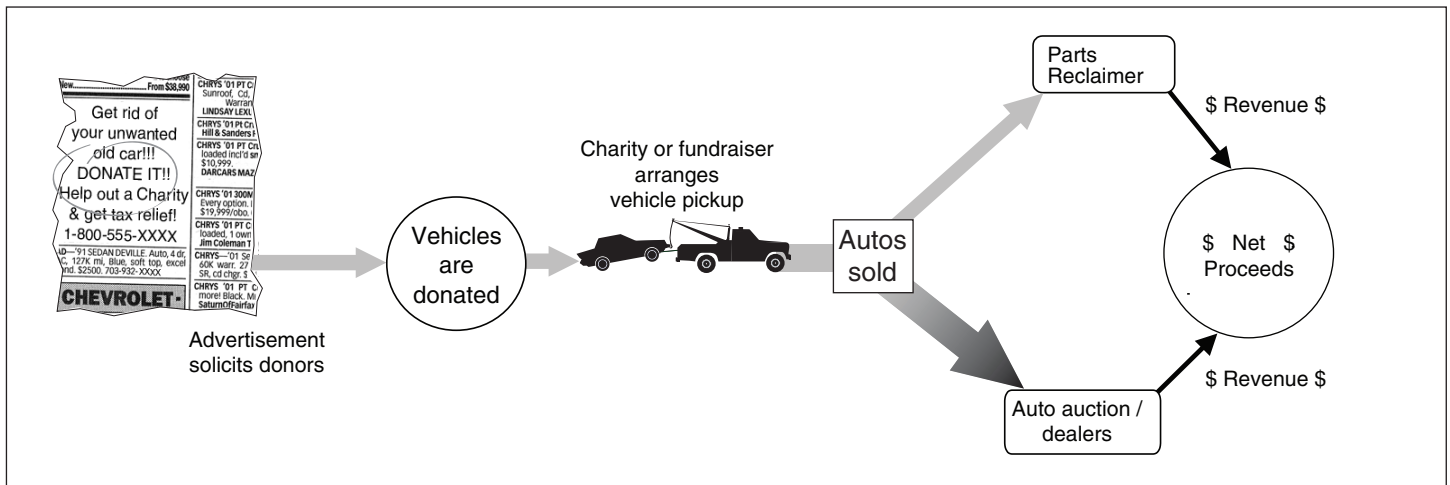
IRS also expressed concern when advertisements claim donors can value their vehicles at full, or maximum, market value when claiming a tax deduction. IRS does not define full or maximum value, but believes these claims may be misleading since vehicles are required to be valued at fair market value. IRS stated that these advertisements may be particularly misleading when they also claim that vehicles will be accepted whether they are running or not. Fair market value equals what a vehicle would sell for on the market, and takes into account a vehicle's condition and mileage, among other factors. Of the 117 advertisements we reviewed that mention tax deductions, 38 specified that donors could claim fair market value on their tax returns when donating their vehicles; while 8 identified that a donor could claim full or maximum market value. Other advertisements referred potential donors to the IRS Web site, an accountant, used car guides such as the Kelley Blue Book,⁴ or other sources for guidance on claiming a tax deduction.

After deciding to donate a vehicle to charity, a donor will generally encounter one of two types of vehicle donation programs: those operated by charities (in-house) and those operated by a for-profit or not-for profit fund-raiser (fund-raiser). Donors may not know whether they are donating vehicles directly to charities or through fund-raisers.⁵ Figure 2 identifies the vehicle donation process for both in-house and fund-raiser vehicle donation programs.

⁴ The Kelley Blue Book is one of several guides listing values for various models of used vehicles based on their condition and mileage.

⁵ This may not be a factor for donors if their primary motivation is disposing of their vehicle.

Figure 2: Vehicle Donation Process



Source: GAO.

For in-house programs, charities, typically larger ones, advertise for vehicle donations, and respond to donor’s initial call inquiring about a donation. After the charity determines that it will accept the vehicle,⁶ it arranges to have the vehicle picked up, often towed, and delivered to wherever it will be stored until it is liquidated. The charity provides the donor with a receipt when the vehicle is picked up, or at a later time to document the donation for tax purposes. At the time the vehicle is picked up, the charity obtains the title of the vehicle from the donor, and some charities may provide donors with state-required forms (e.g., release of liability) or references for establishing the tax deductible value of their donated vehicles (e.g., Kelley Blue Book or IRS guidance). Charities we spoke with stated that it is up to the donor to establish the vehicle’s value. Once the donated vehicles are collected, they are generally sold at auto auctions or salvaged for parts, but may also be sold to auto dealers or to the general public. Charities with in-house programs keep 100 percent of the net proceeds after deducting costs associated with processing the vehicles.

⁶ When a charity or commercial fundraiser receives the initial call from a potential donor, the donor is asked questions about the vehicle, including the vehicle’s make, year, and condition, and whether the donor has the title. Some programs will only accept vehicles expected to produce a profit after towing and other expenses. Charities sometimes will accept vehicles regardless of condition, because, as one charity stated, they view accepting vehicles with little value as generating goodwill for future donations.

For fund-raiser programs,⁷ fund-raisers generally perform some or all of the tasks associated with advertising, vehicle pick up, and vehicle disposal. After deducting expenses, fund-raisers keep a portion of the net proceeds from the vehicle sale or salvage, providing the remainder of the proceeds to the specified charity. A charity working with a fund-raiser may have no oversight of the process, leaving the operation of the program, and distribution of proceeds, up to the fund-raiser.

The relationship between charities and fund-raisers varies, depending on the agreements they have established. Some commercial fund-raisers may handle vehicle donation programs for many charities. For example, one national fund-raiser has contracts with about 140 charities, and another works with about 200 charities. Charities may also contract with multiple fund-raisers. Fund-raisers often support smaller charities that would not otherwise be able to participate in vehicle donation programs. For example, at one California charity, a staff person spent half her time working with two vehicle donation fund-raisers, which together generated about \$110,000 for the first six months of the current year (approximately 8 - 10 percent of its annual budget).

In addition to the in-house and fund-raiser programs described above, we identified some variations in how vehicle donation programs operate. For example, see the following.

- Some charities refurbish donated vehicles for their own program services or clients, rather than for sale or salvage.
- One state consortium of 14 charities jointly runs a vehicle donation program in conjunction with a wrecking yard. The charities share in oversight of the operations, such as inspecting donated vehicles and monitoring vehicle donation reports. Donors can select one charity to receive the proceeds, or proceeds are split among members of the consortium equally if no charity is designated.
- One large charity runs a national vehicle donation program and serves regional offices as a fund-raiser would, charging its regions vehicle processing costs. Some of the charity's affiliates choose other fund-raisers and do not participate in the national program.

⁷ Some charities perform vehicle donation fund-raising for other charities, but most of the vehicle donation fund-raisers we identified were for-profit businesses.

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- Another large charity runs a national program and serves charity affiliates but also has a nonprofit vehicle donation program for other smaller charities.

Vehicle Donation Proceeds

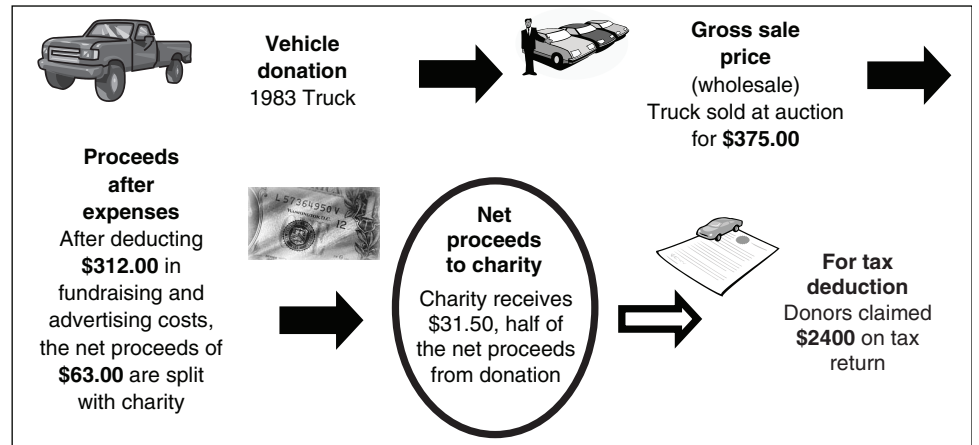
The total proceeds a charity receives from a vehicle donation may be less than what a donor expects. We identified two factors that contribute to this difference. First, charities and fund-raisers often sell vehicles at auto auctions for wholesale or liquidation prices or to salvage yards for parts, rather than obtaining the amount they would receive if vehicles were sold to private parties. Second, vehicle processing and fund-raising costs are subtracted from vehicle revenue, further lowering proceeds.

According to a survey of year 2001 charitable donors commissioned by the Wise Giving Alliance, donors expect at least 70 to 80 percent of a charity's funds to be used for charitable purposes rather than fund-raising or administrative costs. Actual charity receipts reported to state officials for charity fund-raising are less. For example, in New York telemarketing fund-raisers (not specifically vehicle donations) returned 32 percent of funds raised for charities in 2000. Although donors are often motivated by serving a charitable cause when donating their vehicle, the results of donor surveys identified that individuals are also motivated by the ability to claim a tax deduction and to dispose of an unwanted vehicle.⁸

Figure 3 provides an example of the amount a charity received from an actual vehicle donation. In this case, a 1983 truck was donated in 2001 to a charity whose vehicle donation program is operated through a fund-raiser. The gross sale price for the truck (sold at an auction) was \$375. After deducting fund-raiser and advertising expenses, net proceeds totaled \$63.00. This amount was divided evenly between the fund-raiser and charity, leaving the charity with \$31.50 from the vehicle donation. The donor claimed a deduction of \$2,400 on his or her tax return, based on the fair market value of the vehicle as identified in a used car guidebook.

⁸ Two charities shared voluntary feedback provided by vehicle donors. Over 3,000 donors responded in one survey and about 400 responded in the other. We did not review the methodology for the surveys and consider the results to be illustrative.

Figure 3: Example of Vehicle Donation



Source: GAO.

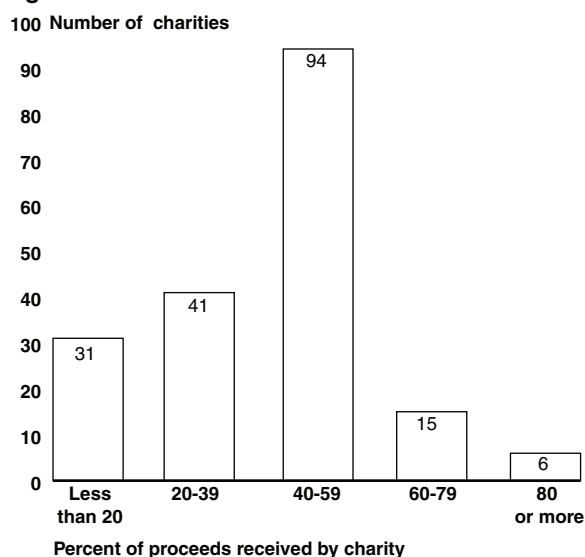
Note: GAO analysis of an actual vehicle donation.

Charities operating in-house vehicle donation programs incur costs associated with processing vehicles for sale or salvage, but do not incur additional fees generally associated with fund-raiser programs. Processing costs cannot be compared among in-house programs because charities may record their costs differently. One of the few in-house charities we spoke with reported that it earned a net average of 42 to 44 percent of the sales price of donated vehicles. Another charity operating a national program for local affiliates reported a range of 13 to 32 percent net proceeds for programs operating for over 2 years, and a deficit to slightly in excess of breakeven for newer programs.

Proceeds received by charities participating in vehicle donation programs run by fund-raisers also varied, in part due to the different processing costs deducted by fund-raisers, as well as different agreements between charities and fund-raisers for splitting net proceeds. Some charities receive a percentage of the net proceeds, after the fund-raisers costs are deducted. Other charities receive the net proceeds remaining after the fund-raiser deducts a flat fee for expenses.

California is the only state that systematically captures information on the percentage of proceeds received by charities through vehicle donation programs.⁹ However, California only captures information related to programs run by fund-raisers, and cannot separately identify the number of charities that operate in-house programs. According to a report from the California State Attorney General's Office, less than 1 percent of registered charities in California have vehicle donation programs that are managed by commercial fund-raisers. In 2000, these fund-raisers generated approximately \$36.8 million in sales revenue, with about \$11.3 million (31 percent on average) being returned to the charities. As shown in figure 4, California charities received proceeds from fund-raiser programs ranging from less than 20 percent to over 80 percent of the net proceeds from vehicles, but most were in the 40 – 59 percent range.

Figure 4: Vehicle Donation Proceeds to California Charities Using Fund-raisers



Source: California Attorney General's Office.

⁹ National data on the proceeds charities receive from vehicle donation fund-raising do not exist. Although IRS's Form 990 collects information from charities on fund-raising costs, it does not identify the portion, if any, related to vehicle donations.

Issues relating to charity proceeds from fund-raising reached the Supreme Court on March 3, 2003, in arguments related to “Ryan v. Telemarketing Associates”. The Attorney General of Illinois is appealing a decision of the Illinois Supreme Court¹⁰ to dismiss fraud charges against Telemarketing Associates. At issue were solicitations implying that cash donations would go to a charity to buy food baskets and blankets for needy veterans, while only 15 percent of the funds raised actually went to the charity. As part of the case, donor affidavits were reviewed stating that some individuals would not have donated if they knew the percentage of proceeds the charity would actually receive. The Supreme Court has ruled in three previous cases that percentage-based limitations on charitable solicitations were unconstitutional. The Supreme Court decision in this case is not expected until July 2003.

We plan to conduct a national survey of charities to further review vehicle donation proceeds received by charities and fund-raisers. We will identify any concerns regarding the amount of net proceeds fund-raisers keep from vehicle donations and the significance of vehicle donation programs to charity operations. Charities may consider proceeds from vehicle donations to be a welcomed, if not crucial, source of revenue to support their operations. For example, one charity stated that vehicle donations are “just keeping their heads above water.”

Donor Tax Deductions

The results of donor surveys we reviewed indicated that the ability to claim a tax deduction is one of the most important reasons individuals donate vehicles to charity. However, we found that a small percentage of Americans claim tax deductions for vehicle donations. Specifically, we reviewed a representative sample of taxpayer returns that claimed noncash contributions for the tax year 2000. Of the 129 million returns filed that year, a projected 0.6 percent, or an estimated 733,000 returns¹¹, had tax deductions for vehicle donations.

¹⁰ The Illinois Supreme Court held that the fund-raiser's conduct was protected under the First Amendment and the Attorney General's complaint was not legally sufficient because it was an attempt to impose a constitutionally impermissible percentage-based limitation on the fund-raiser's ability to engage in a protected activity.

¹¹ Ninety-five percent confidence intervals: 0.6 percent +/- 0.2 percent, and 733,000 returns +/- 520,000 returns.

We also found that deductions for vehicle donations accounted for a small fraction of forgone tax revenue. Based on the sample we reviewed, vehicle donation deductions totaled an estimated \$2.5 billion¹² of the \$47 billion in noncash contributions claimed.¹³ Stocks and thrift store donations accounted for most of the tax dollars deducted for noncash charitable contributions. We estimate that in 2000, vehicle donations deductions lowered taxpayers' income tax liability by an estimated \$654 million¹⁴ of the \$1 trillion tax liability reported on returns.

IRS guidance limits the amount of an allowable deduction to the vehicle's fair market value, or the amount a willing, knowledgeable buyer would pay for the vehicle. We reviewed each deduction for vehicle donations in our sample to determine the average value claimed for donated vehicles in 2000, and whether these values fell within the ranges identified in a nationally recognized blue book. We estimated that the average value claimed for donated vehicles in 2000 was \$3,370,¹⁵ and that the amounts claimed for almost all of these vehicles fell within the blue book. However, since we did not have additional information regarding the vehicles' condition and mileage, we could not determine whether reported values accurately reflected fair market value.

For a donor to claim a vehicle tax deduction, the contribution must be made to a qualified organization. Churches and most nonprofit charitable, educational, and medical organizations are qualified.¹⁶ We submitted the names of charities from our sample that taxpayers reported on their returns to IRS to verify whether the recipient organization was qualified to receive tax deductible donations. Of the 22 charities IRS reviewed, it was able to verify that 10 of the charities were qualified to receive tax-deductible donations. IRS could not determine whether the remaining 12

¹² Ninety-five percent confidence interval: \$2.5 billion +/- \$2.0 billion.

¹³ Our estimates are based on taxpayers who were required to file Form 8283, "Noncash Charitable Contributions," for noncash contributions exceeding \$500. Some of these taxpayers may have claimed tax deductions for vehicle donations, but they were not required to list these transactions on their returns.

¹⁴ Ninety-five percent confidence interval: \$654 million +/- \$480 million.

¹⁵ Ninety-five percent confidence interval: \$3,370 +/- \$790.

¹⁶ Other types of organizations that qualify for donations include war veteran organizations, domestic fraternal societies, certain nonprofit cemetery companies or corporations, and the United States and any state or local government.

charities were qualified organizations because it needed more information than taxpayers reported on their tax returns, such as the organizations' full names and addresses and employer identification numbers.

IRS has a compliance program to review noncash donations, including vehicle donations generating revenue over \$5,000, which compares the amounts received by a charity upon the sale of a donated item with the amount claimed by the taxpayer as the fair market value of the item.¹⁷ Although differences exist between fair market values and the proceeds from items sold at wholesale prices, this program gives IRS an indication of whether a particular donation should be further scrutinized. However, IRS has no data identifying whether cases referred for further review by this program are ever pursued.

IRS is also in the process of implementing a National Research Program, which may provide data on compliance issues dealing with vehicle donations and other noncash contributions. Under the program, officials will randomly select about 49,000 tax year 2001 returns to determine whether taxpayers complied with statutory income, expense, and tax reporting requirements. Returns with noncash contributions, including donated vehicles, could be subject to audit to verify donation claims. Once this project is completed, IRS plans to assess individuals' compliance related to deductions for noncash contributions, and determine whether more enforcement is needed to help ensure proper reporting in this area.

Taxpayer Guidance and Cautions

IRS and other organizations, including the National Association of State Charity Officials and the Better Business Bureau, have issued guidance on steps potential donors should take before donating their vehicles to charity and claiming associated tax deductions. These steps include the following.

- Verify that the recipient organization is a tax-exempt charity. Potential donors can search IRS's Publication 78, which is an annual cumulative list of most organizations that are qualified to receive deductible contributions.

¹⁷ Charities file Form 8282 when donated property valued at over \$5,000 is disposed of within 2 years of receiving it.

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- Determine whether the charity is properly registered with the state government agency that regulates charities. The state regulatory agency is generally the state attorney general's office or the secretary of state.
 - Ask questions about how the donated vehicle will be used to determine whether it will be used as intended. Such questions include the following: Will the vehicle be fixed up and given to the needy? Will it be resold, and if so, what share of the proceeds will the charity receive?
 - Itemize deductions in order to receive a tax benefit from the donation. The decision to itemize is determined by whether total itemized deductions are greater than the standard deduction.
 - Deduct only the fair market value of the vehicle. The fair market value takes into account many factors, including the vehicle's condition, and can be substantially different from the blue book value. IRS Publication 526, "Charitable Deductions," and IRS Publication 561, "Determining the Value of Donated Property," provide instructions on how to calculate the fair market value of donated property.
 - Document the charitable contribution deduction. IRS Publication 526 identifies requirements for the types of receipts taxpayers must obtain and the forms they must file.
 - Follow state law regarding the car title and license plates. Generally, the donor should ensure that the title of the vehicle is transferred to the charity's name, by contacting the state department of motor vehicles, and keep a copy of the title transfer. Donors are also advised to remove the license plates, if allowed by the state.

The IRS and the states have identified few significant occurrences of abuse by charities and fund-raisers operating vehicle donation programs. However, the guidance above may help potential donors avoid donating vehicles to organizations that have not complied with laws or regulations related to vehicle donation activities, and prevent problems sometimes encountered with vehicle title transfers. For example, see the following.

- IRS revoked the charity status for one Florida organization that solicited boat donations after finding that its charitable activities were insubstantial, and that proceeds were kept for personal gain.

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- California charity officials prosecuted and jailed the owner of a used car lot soliciting vehicles for charity. The organization raised an estimated \$1 million, none of which benefited charity.
 - In Massachusetts, a for-profit company solicited cars through newspaper ads, and led potential donors to believe that the organization was a charity and that all, or a substantial portion of, proceeds would go to a charitable purpose. In May 2002, Massachusetts brought an enforcement action in which the company's president agreed to cease all further activity related to the car donation operation and dissolve.
 - According to state agency officials, they often receive complaints from donors when charities do not transfer vehicle titles as promised. Donors found themselves responsible for parking violations, penalties, and in some cases damages when donated vehicles were subsequently involved in accidents.

In addition to noncash contributions guidance found in various IRS publications and news releases, the IRS has publicized guidance regarding vehicle donations, and developed a training video for state and IRS compliance regulators. In 2001 IRS also created a cross-functional Donated Property Task Force to study issues surrounding donated property and identify methods to monitor this area. The task force, in cooperation with the National Association of State Charity Officials, is also surveying state charity officials to identify information that states collect on charity fund-raising, and on vehicle donations in particular. As of March 2003, only California reported having data available on vehicle donation handled by fund-raisers.

Mr. Chairman, this completes my prepared statement. I would be happy to respond to any question you or other Members of the Committee may have at this time.