

# *Sy Accountancy Corporation*

Member, American Institute of CPAs

704 Mira Monte Place, Pasadena, California 91101

Tel (626) 744-0200 • Fax (626) 744-0300 • vsy@victorsycpa.com • www.victorsycpa.com

## IRS REVISES FORM 1098-C FOR DONATIONS OF CARS

By Victor Sy, CPA, MBA

IRS has revised Form 1098-C, Contributions of Motor Vehicles. A charity must use this form to report donations of qualified vehicles to IRS under the stringent new rules added by the American Jobs Creation Act and modified by the Gulf Opportunity Zone Act.

Background: Under the 2004 Jobs Act, the deduction for "qualified vehicles" (motor vehicles, boats and planes) contributed to a charity after 2004 for which the claimed value exceeds \$500 is dependent on the charity's use of the donated property. The donor's charitable deduction can't exceed the charity's gross proceeds from the sale if the charity sells the vehicle without any "significant intervening use" or "material improvement." An exception applies if the charity transfers it to a needy person at a price significantly below fair market value (FMV) in direct furtherance of its charitable purpose of relieving the poor, distressed, or underprivileged in need of transportation.

A charity must file with IRS a separate Form 1098-C for each contribution of a qualified vehicle for which the donor claims a value of more than \$500. For the donor to claim a charitable contribution deduction, the charity must give him a contemporaneous written acknowledgment of the contribution containing the same information shown on Form 1098-C if he contributes a qualified vehicle with a claimed value of more than \$500. Copy B of Form 1098-C may be used to provide this contemporaneous written acknowledgment. The GO Zone Act retroactively clarified that the donee acknowledgment must include whether the donee organization provided any goods or services in consideration of the vehicle, and a description and good faith estimate of the value of any such goods or services.

Specific changes to Form 1098-C: The following new boxes have been added to the 2006 Form 1098-C:

1. Box 6a - Did you provide goods and services in exchange for the vehicle?
2. Box 6b - Value of goods and services provided in exchange for the vehicle.
3. Box 6c - Describe goods and services, if any, that were provided. If this box is checked, donee certifies that the goods and services consisted solely of intangible religious benefits.

Written acknowledgment requirement: What a charity's written acknowledgment must contain depends upon what it does with the vehicle. For example, if it intends to give or sell the vehicle to a needy person at a price significantly below FMV in furtherance of its charitable purpose, the acknowledgment must contain a statement certifying this intent. This exception does not apply if the charity merely applies the proceeds from the sale of the vehicle to a needy person for any charitable purpose. However, all acknowledgments must include: the donor's name and taxpayer identification number (TIN), the vehicle identification number (VIN), the date of the contribution, and either: (1) a statement that no goods or services were provided by the charity in return for the donation; (2) a description and good faith estimate of the value of goods or services, if any, that the charity provided in return for the donation; or (3) a statement that goods or services provided by the charity consisted entirely of intangible religious benefits. If the acknowledgment does not contain all required information, the deduction will be limited to \$500. If the acknowledgment indicates that the donated vehicle was sold for \$500 or less, a special rule applies. The donor may claim a deduction for the lesser of the vehicle's fair market value on the date of the contribution, or \$500, if he gets a written acknowledgment from the charity that complies with the requirements for a vehicle contribution deduction of \$500 or less.