



## Treasury Inspector General for Tax Administration Office of Audit

### PROCEDURES TO ADDRESS NONCOMPLIANCE WITH THE REPORTING REQUIREMENTS FOR CONTRIBUTIONS OF MOTOR VEHICLES CONTINUE TO BE INADEQUATE

Issued on September 11, 2009

## Highlights

Highlights of Report Number: 2009-30-116 to the IRS  
Deputy Commissioner for Services and Enforcement.

### IMPACT ON TAXPAYERS

The legitimacy of the values placed on donations of motor vehicles has recently been questioned by the Internal Revenue Service (IRS) and Congress. As a result, Congress passed legislation limiting the deductions and adding reporting requirements. Individual taxpayers are required to file Contributions of Motor Vehicles, Boats, and Airplanes (Form 1098-C) or a written acknowledgement from the charity, in addition to Noncash Charitable Contributions (Form 8283), if their charitable deductions claimed for donated motor vehicles exceed \$500. Currently, taxpayers who may not be entitled to deductions for charitable contributions of motor vehicles are reducing their tax liabilities, which could result in a loss of revenue to the Federal Government and inequitable treatment of taxpayers.

### WHY TIGTA DID THE AUDIT

The objective of the review was to evaluate the effectiveness of the continuing implementation of Provision 884 of the American Jobs Creation Act of 2004 and the effectiveness of the processing of reported deductions for donations of motor vehicles to charitable organizations 2 years after its enactment. TIGTA also evaluated whether the charities receiving the donated vehicles provided the required documentation to the IRS.

### WHAT TIGTA FOUND

The IRS issued additional guidance and developed a plan to improve awareness of the current requirements for claiming deductions for charitable contributions of motor vehicles; however, taxpayer noncompliance continues to be significant. Additional procedures need to be established to identify noncompliance with motor vehicle donation requirements during returns processing. Additional returns processing procedures will enable the IRS to address potential noncompliance, as Congress

intended in its legislation. Also, the IRS needs to match the Form 1098-C information submitted by charities with the information on taxpayers' returns. TIGTA estimated 92,037 taxpayers claimed unsubstantiated motor vehicle donations totaling \$204 million for the Tax Year ending December 31, 2007. In addition, TIGTA estimated 63,972 taxpayers may have avoided paying approximately \$17 million in taxes for Tax Year 2007.

### WHAT TIGTA RECOMMENDED

TIGTA recommended the IRS ensure that 1) returns without substantiation for charitable contributions of motor vehicles are processed pursuant to math error authority, 2) procedures are developed to match the information reported by charities on Forms 1098-C with the information reported on taxpayers' returns, and 3) outreach, educational material, and other methods be used to ensure charitable organizations comply with the requirement to file Form 1098-C with the IRS for each donated motor vehicle with a value in excess of \$500.

In their response to the report, IRS officials agreed with one of the three recommendations. IRS officials agreed to process returns without substantiation for charitable contributions of motor vehicles pursuant to math error authority. IRS officials disagreed to match the information reported by charities on Forms 1098-C with the information reported on taxpayers' returns. The IRS believes the noncash contribution review is better suited for the Correspondence Examination Program. In addition, management believes they have a substantial outreach program for motor vehicle donations and have completed what is being recommended.

TIGTA believes matching the information reported by charities with the information on taxpayers' returns would more effectively identify potential underreporting by taxpayers claiming undue deductions for motor vehicle donations and could facilitate the imposition of penalties on charities that do not provide the required documentation to donors and the IRS. TIGTA also believes the IRS has had more than 2 years to make charities aware of the change in the law but our analysis still identified an approximately 60 percent noncompliance rate. The deficient cases in our samples were all filed after the IRS outreach was available. Further, because the IRS is not identifying noncompliant charities and imposing penalties when the charities fail to submit the required documentation, compliance by charities may not improve.

### READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2009reports/200930116fr.pdf>

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