



Treasury Inspector General for Tax Administration Office of Audit

MANY TAXPAYERS ARE STILL NOT COMPLYING WITH NONCASH CHARITABLE CONTRIBUTION REPORTING REQUIREMENTS

Issued on December 20, 2012

Highlights

Highlights of Report Number: 2013-40-009 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

Taxpayers can generally deduct on their Federal tax return noncash charitable contributions made to qualifying organizations during the tax year. However, taxpayers who do not comply with the noncash contributions reporting requirements could be incorrectly reducing their tax liabilities and receiving tax refunds to which they are not entitled. TIGTA estimates more than 273,000 taxpayers claimed approximately \$3.8 billion in potentially erroneous noncash charitable contributions in Tax Year 2010, which resulted in an estimated \$1.1 billion reduction in tax.

WHY TIGTA DID THE AUDIT

This audit was initiated as a follow-up to prior TIGTA audit recommendations. The objective of this review was to assess the IRS's actions to ensure taxpayers are complying with reporting requirements for claiming noncash charitable contributions.

WHAT TIGTA FOUND

IRS controls are still not sufficient to ensure taxpayers are complying with noncash charitable contribution reporting requirements. Statistical samples of Tax Year 2010 tax returns that claimed more than \$5,000 in noncash charitable contributions showed that approximately 60 percent of the taxpayers did not comply with the noncash charitable contribution reporting requirements. These taxpayers claimed noncash contributions totaling approximately \$201.6 million.

Taxpayers who donate motor vehicles must attach a Form 1098-C, *Contributions of Motor Vehicles, Boats, and Airplanes*, to their tax returns. However, the IRS is still not effectively identifying taxpayers who are not complying with reporting requirements for donations of motor vehicles.

A match of the Forms 1098-C submitted with tax returns processed as of December 31, 2011, to those submitted

by charities identified 35,846 tax returns with motor vehicle claims totaling approximately \$77 million where no Form 1098-C was filed by the charity. In addition, 1,708 taxpayers reported fair market values of the vehicles that exceeded sale proceeds by a combined total of \$2.2 million.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS expand procedures to identify tax returns claiming noncash charitable contributions that do not have a Form 8283, *Noncash Charitable Contributions*, or qualified appraisal attached when required, and develop processes to systemically verify the accuracy of noncash charitable contributions. In addition, the IRS should revise the Form 8283 and related instructions and develop procedures to match Forms 1098-C submitted with individual tax returns to those filed by charitable organizations.

IRS management agreed with three of the six recommendations, and partially agreed with one. IRS management did not agree with TIGTA's conclusion that information contained in the Individual Return Transaction File is incorrect. In addition, IRS management did not agree to develop procedures to match Forms 1098-C submitted with individual tax returns to those filed by charitable organizations.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2013reports/201340009fr.pdf>