IMPROVED PROCEDURES ARE NEEDED TO IDENTIFY NONCOMPLIANCE WITH THE REPORTING REQUIREMENTS FOR CONTRIBUTIONS OF MOTOR VEHICLES

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Highlights


IMPACT ON TAXPAYERS

The legitimacy of the values placed on donations of motor vehicles has recently been questioned by the 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.

WHY TIGTA DID THE AUDIT

Tax law requires that individual taxpayers provide specific substantiating information with their tax return for noncash charitable contributions. Provision 884 of the American Jobs Creation Act of 2004 added information and reporting requirements for individual taxpayers making charitable contributions of motor vehicles.

The objective of the review was to evaluate the implementation of Provision 884 and the processing of individual income tax returns reporting deductions for donated motor vehicles.

WHAT TIGTA FOUND

The IRS revised tax forms and publications and provided training and information to employees to facilitate implementation of the new requirements for claiming deductions for charitable contributions of motor vehicles. However, taxpayers and tax practitioners still need to be better educated concerning requirements for claiming deductions for donated motor vehicles. Also, additional procedures need to be established to identify noncompliance with motor vehicle donation requirements during returns processing. Better education of taxpayers and preparers and additional returns processing procedures will enable the IRS to address potential noncompliance as Congress intended in its legislation. TIGTA estimates 104,846 taxpayers could have claimed unsubstantiated motor vehicle donations totaling approximately $209 million for the tax year ending December 31, 2005.

WHAT TIGTA RECOMMENDED

TIGTA recommended that: (1) an outreach plan be developed concerning the reporting requirements for motor vehicle donations, and (2) the IRS threshold be lowered to ensure most of the returns claiming unsubstantiated deductions are addressed and missing Forms 8283 and supporting documentation are obtained.

In their response to the report, IRS officials disagreed with the need for an outreach plan, stating that the timing of our review was a factor in the high noncompliance rate. They also stated they believed corrective actions from a prior report on noncash contributions would address unsubstantiated deductions.

TIGTA disagrees with the IRS. The law was passed in 2004 and was effective for donations made beginning in 2005. Tax returns reflecting those donations were filed in 2006. The IRS had more than a year to make taxpayers and preparers aware of the change in the law and yet there was still an 80 percent noncompliance rate. The deficient cases in our samples were all filed after the IRS outreach was already available. Outreach efforts must specifically emphasize that the documentation requirements for donation of a motor vehicle are different than those for other noncash contributions. Congress specifically provided different substantiation levels for motor vehicles, and to ignore that fact in administering the tax law is not in keeping with Congress’ intent. In addition, the IRS’ planned corrective actions to address returns without required substantiation for contributions of motor vehicles will result in virtually no change.

TIGTA plans to perform a followup audit to determine if the compliance rate significantly improves.

READ THE FULL REPORT

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