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Tax Benefits of Donating Used Vehicles to Charity

Donating a used car or other vehicle to charity is a great way to support the nonprofit of your choice, while also allowing you to claim a deduction on your Federal income tax return. But the rules governing vehicle donations have tightened in recent years. Consequently, it is important to be aware of the process involved in donating a car and the procedures that must be followed when claiming the deduction.

Many charities, both large and small, now accept vehicle donations. The types of vehicles that qualify for the tax deduction include all privately owned automobiles manufactured primarily for use on public roads, as well as boats and airplanes. In order to claim a deduction, however, the charity that receives the gift must be recognized by the Internal Revenue Service (IRS) as a 501(c)(3) organization. Available online and at most public libraries, IRS Publication 78 includes an annually updated list of qualified charities.

Prior to a change in rules in 2005, taxpayers were permitted to write off the fair market value of the donated vehicle. But under current law, you are only allowed to deduct automatically the good faith fair market value of the car if the estimated amount does not exceed $500.

The IRS defines fair market value as the price a willing buyer would pay and a willing seller would accept for the vehicle when neither party is compelled to buy or sell and both parties have reasonable knowledge of the relevant facts. When assessing the value of the vehicle, use a pricing guide based on make, model, year, options, and accessories, as well as the condition of the car.

If the vehicle is assessed at a value between $500 and $5,000, the size of the deduction depends upon what happens to the vehicle after the charity has received it. If the charity sells the car, your deduction is limited to the exact amount of the sale price. Different rules apply, however, if the charity makes what the IRS calls "significant intervening use" of the vehicle before it is sold or otherwise disposed of. If, for example, a donated car with a fair market value of $1,500 is used by the charity for several months for pickups and deliveries before it is sold at auction for $1,200, the donor would nonetheless be permitted to claim a deduction of $1,500.

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Disability Income Insurance: Protecting Your Most Valuable Asset

Have you ever wondered how you would manage financially if you were to sustain an injury or illness that left you unable to work? How long could you maintain your standard of living, pay your bills, and cover your daily expenses? The likelihood of such an event may be greater than you think. According to the Council for Disability Awareness (2013), Americans underestimate their chances of experiencing a long-term disability: 64% of working Americans believe they have a 2% or less chance of being disabled for 3 months or more during their working years; however, the reality is that the odds of experiencing a long-term disability are about 25%.

To be prepared for such a situation, it is important to *plan ahead*. To help protect yourself, you may wish to purchase an **individual disability income insurance** policy, which would replace a portion of your income in the event that you experience a qualifying disability. Consider the following when choosing among the coverage options:

- **Definition of Disability.** Carefully review the policy's definition of disability. Some policies may provide coverage if you are unable to work in the occupation in which you were employed or for which you were trained, or if you can no longer earn as much as you once did in that field. In contrast, other policies may offer coverage only if you are unable to work in *any* occupation. In other words, if you were to sustain a disability but were able to work in a lower skilled, lower paying job, you may not receive benefits.
- **Residual Benefits or Partial Disability Coverage.** Under specific circumstances, if you become disabled and are only able to earn a *portion* of your previous income, residual or partial disability coverage pays a percentage of your benefits.
- **Guaranteed Renewable.** With this feature, the insurer cannot refuse to renew your policy prior to the policy expiration date or change any terms, except for premium cost, as long as you continue to pay your premiums on time.

- **Guaranteed Insurability.** This provision allows you to increase your coverage amount, even if you experience health changes that would otherwise prevent you from obtaining additional disability coverage.
- **Cost-of-Living Adjustment (COLA).** This feature helps protect your benefits against the effects of inflation during a long-term disability.

It is important to note that the cost of a disability income insurance policy varies according to the scope of coverage you choose, and there may be an additional premium for adding any **riders**.

The Outlook without Protection

Without a disability income insurance policy in place, there are alternatives, but they come with shortcomings. For instance, you could self-insure. But, even if you save 10% of your salary each year, one year of disability could easily deplete many years of savings. Or, perhaps your employer provides group disability insurance. Unfortunately, **employer-sponsored plans** are often limited in scope and duration, and generally coverage is not portable upon termination of employment. **Workers compensation** may be an option if an injury occurs on the job. However, eligibility and benefits vary by state.

To qualify for **Social Security** disability benefits, specific criteria must be met, and you may have to wait several months for payments to begin. Social Security disability was not intended to be an individual's sole source of disability income. Benefits are often less than what is needed to cover living expenses.

An illness or injury that reduces or eliminates your primary source of income can be both an emotionally and a financially challenging experience. Therefore, you may want to consider disability income insurance as part of your overall financial strategy. Be sure to consult with a qualified professional.

Unpaid Student Loans May Result in Docked Social Security Checks

When an individual ceases making payments toward his or her student loan, the loan falls into default. The consequences of someone defaulting on a student loan can be severe and include damage to his or her credit report, the inability to build savings or apply for other loans, and wage garnishment. Recently, many retirees have discovered that defaulting on Federal student loans can result in their Social Security benefits being docked.

The Consequences

According to the Federal Reserve Bank of New York (March 2013), Americans owe $966 billion in student loans, which is significantly more than credit card debt or car loans. Almost 7 million borrowers, or 17%, are 90+ days delinquent on their loans. In March 2012, Federal student loans accounted for approximately 85% of all student-loan debt; private student loans made up the rest. However, private lenders can garnish wages only—they do not have the authority to dock Social Security benefits.

The Federal government is withholding a portion of Social Security benefits from recipients who have fallen behind on their Federal student loans. According to the Treasury Department (August 2012), while there were only 6 such cases in 2000, by 2007 there were 60,000 cases, and in the first seven months of 2012 alone, approximately 115,000 individuals had their Social Security checks docked due to unpaid Federal student loans.

Although the amount of money the government withholds from Social Security varies, it can be as much as 15%. Supposing an individual receives a monthly Social Security benefit of $1,000, he or she could have as much as $180 docked from each check, which can be significant for retirees on a fixed budget.

While some retirees may still be carrying debt from the student loans they took out in their youth, others relied on Federal loans when they returned to college or went to graduate school for a mid-life career change. In many instances, the debt retirees are now carrying was not for their own education, but to help their children, grandchildren, or other dependents fund an education.

Loan Balance Collection

The Department of Education provides Federal student loans to students and provides payment plans to accommodate borrowers who fall behind. It would take nearly two years of non-payment before an account is sent to a collection agency. If the collection agency fails to collect the money, the loan balance is transferred to the Treasury Department, which has the power to garnish Social Security checks. The Treasury Department generally sets up payment plans with borrowers on two separate occasions before dipping into their Social Security checks. However, the Treasury does not withhold money from monthly Social Security checks totaling $750 or less.

The Aftermath

A variety of extenuating circumstances can lead to student loan default, such as an uncertain economic climate coupled with the rising cost of college tuition. As a result, students in all age groups are incurring more debt than previous generations. Nontraditional students, along with their college-enrolled dependents, may equally have trouble finding jobs after graduation.

If you are considering student loans for yourself or a family member, think carefully before you sign on the dotted line. Remember, unlike other types of debt, student loans cannot be discharged by declaring bankruptcy. It can quickly become a burden for even the most financially responsible Americans, and you could be trying to pay your student loan debt down well into your retirement years.

A Budget May Help Boost Your Savings

Whether you have substantial resources or live close to your means, a budget may be an effective foundation for a savings program. It can help you monitor your personal and household expenditures, potentially freeing up income that can be redirected toward savings. Consider the following:

1. A budget can help you analyze your actual expenses. Seeing a breakdown on paper often reveals inefficient or wasteful spending.
2. Once you know where your money is going, a budget may help you conserve financial resources or spend them more wisely.
3. A budget can create awareness of spending habits, which may allow you to prevent financial difficulties in the future.
4. A budget can help you see alternative courses of action for achieving your financial goals.
5. A budget can motivate you to adhere to a savings plan.

6. A budget can allow you to evaluate and monitor your progress toward short-term and long-term financial goals.

Whether you dream of saving for higher education, an early retirement, or a special family vacation, a budget may help to boost your savings.

tax benefits of donating used vehicles to charity

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The donor may also claim the fair market value, rather than the sale price, if the charity sold the car to a "needy individual" at a much lower price than the actual value or if the organization makes a "material improvement"—generally, reconditioning work that is more than routine or cosmetic—before selling the vehicle. If, however, the vehicle is ultimately sold for less than $500, the taxpayer may claim a deduction for the lesser of the vehicle's fair market value on the date of the contribution or $500.

Keep in mind that writing off your vehicle donation is only possible if you itemize your deductions. To claim a vehicle deduction above $500, the receiving charity must provide you with a written acknowledgement of receipt that includes detailed information about the intended use and sale of the vehicle. The charity is required to provide you with substantiation of the donation within 30 days of the date when you signed over the automobile or, if the car is sold, within 30 days of the sale. A copy of the receipt must be filed with the tax return, along with IRS Form 8283, "Noncash Charitable Contributions." If the vehicle is worth more than $5,000, you must also attach documentation from a qualified appraiser. If the donated car is worth between $250 and $500, obtain a written acknowledgement of the contribution from the charity for your records. You are not required to attach the acknowledgement to your tax return.

When donating a vehicle, steer clear of for-profit intermediaries that advertise offers to help you manage your charitable donation, as these middlemen often keep the bulk of the proceeds from the sales of donated cars. If possible, give the vehicle to a charity with a donation program that enables them to accept the vehicles directly. Also consider avoiding charities that do not allow you to re-title the car when turning it over to them, as this leaves you vulnerable to liability.

If you're considering donating a used vehicle to charity, you may qualify for a Federal income tax deduction. For more information, consult your tax professional.