

Donations

Nonprofit organizations rely on the financial support and generosity of donors. Federal tax law imposes two primary requirements on organizations that receive charitable donations and on the taxpayers who make contributions:

Disclosure for some contributions over \$75

A charitable organization is required to provide a written disclosure to a donor who makes a contribution greater than \$75 and receives goods or services in exchange. The nonprofit must provide a good faith estimate of the value of goods or services provided to the donor.

- ◆ The disclosure must contain the following information:
 - amount of the contribution or description of a non-cash contribution;
 - whether any goods or services were provided in return for the donation; and
 - a good faith estimate of the value of the goods or services provided.

- ◆ **Example:** A donor makes a \$100 contribution to attend a dinner with a fair market value of \$25. The donor is entitled to deduct \$75.

- ◆ **Exception:** Token goods or services do not have to be described in a written disclosure. This exception applies in two situations:
 - the value of the goods is less than 2% of the amount of the donation; or
 - items that meet the following requirements: the donor gives at least \$38; the only goods provided in return are items inscribed with the nonprofit's logo; and the items cost less than \$7.60.

The dollar amount of token exceptions changes frequently. Contact the IRS Exempt Organizations Customer Account Services at (877) 829-5500 for updated information.

- ◆ **Exception:** Membership benefits received in exchange for annual dues do not have to be described in a written disclosure if:
 - the dues are \$75 or less;
 - the benefits consist of privileges such as free or discounted admissions to the nonprofit's events, discounts from purchases, or parking privileges.

- ◆ **Penalties:** A penalty of \$10 per contribution, not to exceed \$5,000 per fundraising event or mailing, is imposed on nonprofits that fail to meet the written disclosure requirement.

Written acknowledgment for donations of \$250 or more

A donor is responsible for obtaining a written acknowledgment from a nonprofit for any single contribution of \$250 or more in order to claim the donation as a deduction from federal income

taxes. A donor must receive the acknowledgment by the earlier of: the date on which the donor actually files his individual federal income tax return for the year of the contribution; or the due date (including extensions) of the return. A nonprofit may provide either a separate acknowledgment for each contribution of \$250 or more or an annual summary of all contributions from the donor of \$250 or more. The acknowledgment should contain the following information:

- name of the nonprofit;
- amount of contribution or description of the non-cash contribution;
- whether any goods or services were provided in return for the contribution; and
- a good faith estimate of the goods or services provided in return.

Written acknowledgment for unreimbursed expenses of \$250 or more

If a donor incurs expenses in order to perform donated services for an organization, the donor must also obtain a written acknowledgment from the nonprofit in order to deduct the expenses on her tax return. This acknowledgment must also contain a description of the services provided by the donor.

- ◆ **Example:** A director purchases an airline ticket and spends the night at a hotel to attend the annual conference of community development corporations. The director makes a report at the next board meeting regarding funding opportunities, technical assistance, and ideas for new strategies that he learned at the conference. The ticket costs \$300 and the nonprofit does not reimburse the director. The nonprofit should give the director a written acknowledgment for the unreimbursed expenditures in order for the director to deduct the expenses on his personal income tax return.
- ◆ **Example of written acknowledgment with no return goods or services:**
 - Cash contribution.** "Thank you for your contribution of \$300 to ABC Corporation received on October 16, 2001. No goods or services were provided in exchange for your contribution."
 - Non-cash contribution.** "Thank you for your contribution of a used oak baby crib and matching dresser to ABC Corporation received on October 16, 2001. No goods or services were provided in exchange for your contribution."
- ◆ **Example of written acknowledgment with return goods or services.** "Thank you for your cash contribution of \$300 to ABC Corporation received on October 16, 2001. In exchange for your contribution, we gave you a book with an estimated fair market value of \$60."
- ◆ **Penalties:** Obtaining a written acknowledgment is the donor's burden. However, if a nonprofit does not provide the donor with a written acknowledgment, the donor may make contributions elsewhere.

Other Considerations

Nonprofits should respect the privacy of donors and safeguard the confidentiality of information. Individual donors should have the opportunity to remain anonymous and to restrict the disclosure to the public of their name, amount of donation, or other similar information. For more information on charitable contributions, see IRS Publication 526, Charitable Contributions, or visit the IRS web site at www.irs.gov/eo.