Are Your Special Events in Compliance?

Fundraising events can give rise to complex tax problems. These suggestions will help.

By Tommy Wooten & Marilyn Young

Special events are a great way to gain donations and highlight the work your organization does. But such events complicate tax reporting. Here's what you need to know about the reporting requirements for your special events.

Why Special Events Are Different

Internal Revenue Service (IRS) Publication 526 states that a charitable contribution is a gift to a qualified organization and that this gift must be voluntary and made without getting, or expecting to get, anything of value in return. Under this general rule, donors receive a deduction equal to the value of the donation if they receive nothing of tangible value in exchange.

It's usually up to donors to decide how much to deduct, since they bear the burden of proof for a tax audit. They must obtain written acknowledgments for cash contributions over $250 and all non-cash contributions. You can help donors by sending them those acknowledgments when you receive cash donations.

> "The IRS lets you use a good-faith estimate."

In the case of non-cash contributions, donors must determine the value of the gift. It's still helpful for you to acknowledge that you received the gift, although in this case you won't include a value for the donation.

Special events are different, however. They frequently involve a reciprocal transfer – or quid pro quo (Latin for "something for something") – since donors pay to receive something (such as food and entertainment at the event) in return for their gift. Quid-pro-quo payments aren't deductible.

Thus, nonprofits accept a greater reporting responsibility when it comes to special events. When people purchase tickets for an event, their contributions are reduced by the value of the goods and services received from the event. Since your organization provides these benefits, you must disclose their value in a written statement to donors.

This value may be hard to determine. Therefore, the IRS lets you use a good-faith estimate (defined as "any reasonable method," including the use of comparable goods and services that are commercially available).

In your written statement, you need to remind donors that they can deduct only the amount that exceeds the value of goods and services received. If the donor's payment is equal to or less than the benefits received, then the donor may not deduct anything. If the payment exceeds the benefits received, only the excess payment is deductible.

Your written statement should include the total payment received and a good-faith estimate of the benefits received so that the donor can calculate the charitable contribution for the event. Nonprofits that don't report these benefits are subject to a penalty of $10 per contribution with a maximum penalty of $5,000 per fundraising event.

Reporting Requirements

The IRS has provided clarifying requirements to help you apply these rules. The clarifying requirements are based on two factors:

- **the dollar amount** of the donor's payment
- **the relative value** of the goods and services received by the donor.

Exhibit 1 summarizes the rules for these two factors, and they are described in detail below. As these rules demonstrate, there's no minimum payment (contribution) that relieves a nonprofit from the requirement to calculate the fair value of the goods or services provided in quid-pro-quo transactions. Rather, the rules provide thresholds for disclosing the fair values to donors.

Required Disclosure

The IRS has established a de minimis rule to simplify the reporting requirements for nonprofits. If you receive a payment of more than $75 and the goods and services provided have more than insubstantial value, then the payment includes a quid-pro-quo contribution that you must disclose to the donor. You can fulfill this requirement by disclosing the fair market value of the goods and services received by the donor either at the time of solicitation or when the donor makes the payment.

For example, if you sell a ticket to a fundraising dinner for $100 and determine the value of the dinner to be $40, you can print these amounts on the tickets or include them in follow-up letters thanking donors for their payments.

EXHIBIT 1

Disclosure Requirements for Quid-Pro-Quo Payments and Benefits Received

Goods and Services Provided have a...	Payment > $75	Payment < $75	$75> Payment > $56	Payment < 56
Fair market value (FMV) > 2% of payment or $111, whichever is less.	Disclosure required. The benefits received are substantial. Report the total payment and the value of the benefits received, the difference is the tax-deductible contribution.	No disclosure required. Benefits received are substantial so only the payment in excess of FMV of benefits received is deductible. For donor relations voluntarily disclose the total donation and the FMV of the benefits received.		
Fair market value < 2% of payment or $112, whichever is less.	No disclosure required. The benefit received is insubstantial so the total payment can be reported as a fully deductible contribution.	No disclosure required. The benefit received is insubstantial so the total payment can be reported as a fully deductible contribution.		
Cost of token items received by donor > $11.20			No disclosure required. Token cost is substantial. Unless the token value is less than 2% of the donation, then the deductible contribution must be reduced by the FMV of the token received. This value should be voluntarily disclosed.	No disclosure required. Token cost is substantial. Unless the token value is less than 2% of the donation, then the deductible contribution must be reduced by the FMV of the token received. This value should be voluntarily disclosed.
Cost of token items received by the donor < $11.20			No disclosure required. The token cost is insubstantial. The full payment is a deductible contribution.	No disclosure required. The token cost is insubstantial. The full payment is a deductible contribution.

In addition, you can send annual statements to donors summarizing the amounts received during the year. Donors can use those letters as support for the deductions they take on their tax returns.

You must be careful to ensure that all communications with donors accurately present the payments made to your organization and the benefits received by the donor from your special event. That is, in the example above, you shouldn't report the donor's $100 payment for the ticket without a reference to the $40 of goods or services received.

For payments under $75 with quid-pro-quo payments that have substantial value, you aren't required to disclose the fair market value of the benefits received. However, the donor will still need to validate the amount of the charitable contribution deducted on the tax return. If you don't voluntarily disclose the fair market value of benefits received to the donor, then you shouldn't include the total payment received in any receipt or year-end statement that implies the full amount is deductible.

For donor relations, a best practice is to report the value for all quid-pro-quo contributions of substantial value or at least be prepared to share the fair market value for donors who ask. That practice will allow donors to maximize their tax deductions even if the amounts are under $75.

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The Definition of Insubstantial Benefits

The IRS provides relief to nonprofit organizations when the benefits provided to a donor have insubstantial value. There are three circumstances where the IRS considers benefits insubstantial in the context of a fundraising campaign (the reporting thresholds included in these circumstances are indexed for inflation annually):

The first circumstance is when the fair market value of goods and services is not more than 2% of the total payment or $112 (whichever is less).

The second circumstance is when the contribution amount is at least $56 and the only benefits are token items that cost the nonprofit no more than $11.20.

The third circumstance is when the nonprofit distributes free, unsolicited items to donors through the mail or other distribution means. The items must be accompanied by a letter soliciting donations (to meet the fundraising campaign requirement) and the letter must also state that the recipient may keep the items even if no donation is made.

For these three circumstances, there are no quid-pro-quo payments, separate disclosure is not required, and the donors' contributions are fully deductible.

For the first circumstance, a low threshold of 2% indicates that most payments are going to fail this test and trigger reporting of the benefits received. For example, a payment of $200 to purchase a table for six at a fundraising dinner would require reporting if the goods and services provided had a fair market value over $4. Clearly, the value of dinner for six will exceed the $4 threshold. The payment amount must exceed $5,600 ($112 divided by 2%) before the $112 amount becomes relevant. Consequently, for payments greater than $5,600, the fair market value of the goods and services must be less than $112 to avoid the reporting requirements.

In the second circumstance, an insubstantial benefit exists for a quid-pro-quo payment where the benefit received by the donor includes only token items, such as bookmarks, calendars, key chains, mugs, posters, or t-shirts that bear the nonprofit's name or logo. The threshold for nondisclosure has two elements:

1. The donation amount must be at least $56 and the nonprofit's cost (and not fair market value) in the aggregate for all items distributed to the donor for the year must be less than $11.20. As the threshold amount of $56 for this circumstance is below the threshold of $75 described above, nonprofits aren't required to disclose donations of more than $56 but less than $75.

2. If the nonprofit is choosing to report all contributions to its donors, it is important to know when a donation below $75 can be reported as a fully deductible contribution. If the cost of all token items sent to a donor is less than $11.20,

then the full donation is deductible. If the cost is greater than $11.20, then the benefit is substantial, and the donation must be reduced by the value of the items the donor received.

Special cases of token items are publications, including newsletters, program guides, and journals provided to donors. If the publication is of commercial quality, then the cost is included in the calculation above for a token item. Commercial quality publications include:

- professional journals
- publications that are written for compensation and that accept advertising
- publications available for sale to the general public.

Newsletters that merely announce the activities of the nonprofit aren't included unless they're of commercial quality.

Examples: Putting It All Together

The two sets of dollar thresholds ($75 and $56) and the two sets of benefit calculations (2% and $11.20 limits) create confusing rules to apply. Exhibit 1 is a guidance tool, and the following examples illustrate how these provisions interact.

Example 1: You host a fundraising dinner and a donor pays $200 to sponsor a table. The fair market value of dinner is $50. Since the $200 amount received is over $75 and the goods and services provided are greater than 2% or $112 (whichever is less), disclosure is required. You need to give the donor a written statement that reports the receipt of the $200 payment and $50 benefit received by the donor, creating a $150 tax deductible charitable contribution for the donor.

Example 2: You host a fundraising event and a donor pays $200 to sponsor a table. In this case, you determine that the fair market value of the goods and services you provide at the event is only $3. The $200 amount received is over $75, but since the goods and services provided are less than 2% or $112 (whichever is less), the benefit is insubstantial and no disclosure is required. However, it's a best practice to acknowledge every gift even if not required to do so. You should report the $200 payment to the donor as a charitable contribution that is fully deductible.

Example 3: A donor pays $20 for a ticket to your event. The fair market value of the goods and services you provide at the event is $5. Since the $20 amount is less than $75, you're not required to disclose the value of the benefits received in a written statement. For donor-relations purposes, however, it's always a good idea to acknowledge every gift you receive. The goods and services provided are of substantial value, as they're greater than 2% of the $20 payment. In your written acknowledgment, you should include information about the annual contribution summary, the $20 payment, and the $5 of benefits received so that the donor is aware that only $15 of the total payment is deductible.

> "You could face a penalty of $10 per contribution."

> "Be sure you don't inadvertently encourage donors to file incorrect tax returns."

Example 4: In response to your organization's mail solicitation, a donor contributes $60 and in return receives a t-shirt inscribed with your logo. The t-shirt cost you $15 to purchase but has a $20 fair market value. As the $60 payment is less than $75, there is no disclosure requirement. In addition, the donation amount is more than $56 but the cost of the token item received is also more than $11.20. Therefore, there is a substantial benefit. You should provide written acknowledgment, including the annual contribution summary, the $60 payment, and the $20 benefit received so that the donor can easily calculate the $40 charitable contribution.

Example 5: In response to your fundraising letter, a donor contributes $60 and receives in return a mug inscribed with your logo that cost you $5 to purchase but has a fair market value of $15. Since the payment was less than $75, there is no disclosure requirement. In addition, the donation was more than $56 and the cost of the mug was less than $11.20, the benefit is insubstantial, and you can report the $60 to the donor as a fully deductible donation.

Example 6: In response to your solicitation, a donor contributes $40 and receives a keychain inscribed with your logo. The keychain cost you fifty cents and has a fair value of seventy-five cents. Since the payment is less than $75, there is no disclosure requirement. Also, since the payment is less than $56, the token-items rule doesn't apply. In addition, since the market value of the keychain is less than 2% of the payment, you can report the full amount of the $40 to the donor as a fully deductible contribution.

As these scenarios illustrate, the disclosure rules and substantial benefit definitions are challenging to apply. Even though some donor payments fall below the IRS disclosure requirements, the best practice for donor relations is to default to always disclosing the full payment received and the value of substantial quid-pro-quo payments.

The examples show that when a donor makes a payment of less than $75 for a special event and receives a substantial

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benefit in return, the nonprofit isn't required to disclose the value of the benefit, but the donor may not take the full payment as a charitable contribution on the individual tax return. Voluntarily disclosing the benefits in these circumstances will simplify the process for the donor and reduce the need for you to answer follow-up requests for benefit information. In addition, when both the total payment and the value of the benefits received are reported to the donor, along with a statement that benefits received are not tax deductible, the donor can easily calculate the deduction. Reporting only the total payment or value of the benefits can create confusion for donors and inadvertently encourage them to file incorrect tax returns with overstated charitable deductions.

Build Bonds with Your Donors

Special events can be an important part of your fundraising strategy, but be sure to organize them in a way that increases donor connections while also following tax law requirements. Calculating the fair market value of the benefits received by the donor and disclosing the deductible portion of the donor's payment are key aspects of the special-event process.

Use the IRS rules as the minimum guidelines for reporting quid-pro-quo payments. Go beyond these guidelines to report all substantial benefits to donors. Doing so will make it simpler for donors when they're preparing their tax returns. As a result, they'll feel friendlier toward you and have greater confidence and trust in your organization.

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Make Your Event Extra-Special

For keys to planning, receipting, and following up on special events, see these articles at NonprofitWorld.org:

Improve Your Special Events (Vol. 30, No. 5)

Is a Raffle a Good Bet? (Vol. 37, No. 4)

Make Your Event Sponsorships Stick without Backbreaking Labor (Vol. 36, No. 3)

Are You Giving Your Donors Proper Receipts? (Vol. 17, No. 6)

Event Planning Can Be Easier If You Follow These Steps (Vol. 28, No. 5)

How Risky Is Your Special Event? (Vol. 20, No. 1)

Seven Fundraising-Event Strategies for Challenging Times (Vol. 28, No. 1)

Hurricanes, Strikes, Terrorism – Protect Your Events from These Causes of Loss (Vol. 28, No. 4)

Is an Auction Right for Your Organization? (Vol. 21, No. 5)

Taming the Beast: Four Keys to that Special Event (Vol. 20, No. 4)

SOURCES

IRS Revenue Procedure 90-12

IRS Revenue Procedure 92-49

IRS Revenue Procedure 2019-44 (for inflation adjustments)

https://www.irs.gov/charities-non-profits/charitable-organizations/charitable-contributions-quid-pro-quo-contributions

IRS Publication 526, Charitable Contributions

Frequently Asked Questions & Answers

Q: What if the donor purchases a ticket for a special event for someone else to attend?

A: The donor is purchasing the right to attend the special event. Whether the donor or someone else attends, the contribution portion to the donor is still only the amount in excess of fair market value. If the ticket is given to another individual, that individual is receiving a non-taxable gift. The attending individual would get a tax deduction only if he or she made an additional contribution to the nonprofit.

Q: What if a donor purchases a ticket and doesn't attend the special event?

A: The donor has purchased the right to attend but has chosen not to use it. If the donor wants to receive a full donation for the amount paid for the ticket, then the ticket must be returned to the nonprofit and the nonprofit should change the cash paid for the ticket to a regular cash contribution to the organization.

Q: What if a donor purchases an entire table for eight at a special event?

A: The donor receives a deduction for the amount paid in excess of the fair market value per person times eight. The benefits provided to the attendees that the donor invited to sit at the table are a gift from the donor. If the invited individuals make additional contributions to the organization with no additional benefits received in exchange for their contributions, their contributions are fully deductible.

Q: What if the nonprofit doesn't sell tickets but there's a "suggested donation" to attend?

A: If the donor is paying money and receiving something of value in return, the presumption is that the amount paid is the purchase price and that it is not a tax-deductible contribution. The "suggested donation" plays the same role as an admission price. The nonprofit should make a good-faith estimate of the fair market value of the goods and services and report this amount to the donors for any contributions received for the event.

Q: What if the event was free to attend and all attendees received goods and services? Would any contribution be reduced by the fair market value of the goods and services received?

A: In this circumstance, the donors didn't buy the right to attend, so there is no presumption of quid pro quo for attending. Therefore, food or entertainment provided at the event would not reduce the amount of the deduction for contributions made before, during, or after the special event. However, if the attendee participated in activities such as an auction, then a donation to purchase an auctioned item would be subject to the quid-pro-quo and substantial-benefit rules.

Q: What if the nonprofit is selling raffle tickets or involved in other "gaming" events?

A: Raffle tickets are games of chance, and there is no tax deduction for the purchaser. The purchaser is paying for the right to participate in the game.

Q: Are amounts paid for winning bids at a silent auction reported as fully tax deductible?

A: The total payment to purchase the item must be reduced by the fair market value of the good purchased. The tax-deductible amount to be disclosed to the donor would be the total payment received from the donor minus a good faith estimate of the fair market value of the auction item awarded.

Q: What if the winner's bid on a silent auction item is less than the fair market value of the item won?

A: The donor received a good deal. However, the entire amount paid is considered the purchase price of the item. There would be no tax deduction for the auction winner.

Q: What if the donor receives food and entertainment at the special event that are valued higher than the price of the ticket?

A: In that case, there would be no tax deduction for the participants. The full purchase price would be a quid-pro-quo payment.

Q: What if some of the goods and services provided at the special event were donated to the nonprofit by a business? Do those donations get included in the value of goods and services?

A: It's common for corporations, individuals, and other organizations to donate food and entertainment for special events. However, the benefit received is based on the *fair market value*, not the *cost*, of the goods and services. Therefore, the fair market value of the benefit to participants would be used regardless of whether the goods or services were *donated* to the nonprofit or *purchased* by the nonprofit.