



Demystifying the Receipting of Charitable Gifts

*Are you giving your donors proper receipts for their gifts?
Be sure you're complying with the new rules.*

Many nonprofits are still confused by the substantiation and disclosure requirements which went into effect in 1994. In this article, we'll clarify the rules and answer some commonly asked questions.

Written Acknowledgement Requirement

As of January 1, 1994, donors may not rely on a cancelled check to substantiate charitable contributions of \$250 or more.¹ The IRS now requires nonprofits to give donors written receipts of their contributions. Donors must receive these receipts before they file their tax returns. If these requirements are not met, the IRS will deny the charitable deduction.

The IRS has not established a specific format for nonprofits to use for these receipts. However, the receipt must include:

- The donor's name.
- The amount of cash, or a description of property other than cash, contributed.²
- A statement explaining whether the nonprofit provided any goods or services in return for the gift. If no goods or services were provided, you must state this fact.
- A description and good-faith estimate of the value of any goods or services provided in exchange for the gift. (These quid pro quo gifts create additional legal obligations for nonprofits, as described in the next section). If the only benefit the donor received was an "intangible religious benefit," you must

state this on the receipt. However, you need not acknowledge goods or services of "insubstantial value."

"Quid Pro Quo" Disclosure Requirement

A quid pro quo contribution is a payment made partly as a contribution and partly for goods or services provided to the donor by the charity. A donor may deduct only the amount of the contribution that is above what the goods or services are worth. For example, if Ms. Music Lover gives a contribution of \$100 for a concert ticket which has a fair market value of \$40, only \$60 of the contribution is deductible.

Previously, when a donor received some benefit in exchange for a charitable gift, the donor had the burden of accurately reporting the benefit's value. Under the new rules, the nonprofit organization must provide a written statement to any donor whose quid pro quo contribution exceeds \$75. The statement must fulfill the following conditions:

- It must be made in a manner that is reasonably likely to come to the donor's attention.
- It must inform the donor that the amount of the contribution which is deductible for federal income tax purposes is limited to the

This article was prepared by the Law Offices of Gammon & Grange and excerpted from their "Nonprofit Alert Memo NP9505-1, Demystifying the Receipting of Charitable Gifts." For a more detailed legal analysis of this topic, you may order their 14-page memo for \$20. Gammon & Grange publishes periodic nonprofit memos, alerting nonprofit leaders to key legal developments and responsive risk management steps. For a list of these publications, or for more information, contact Gammon & Grange, 8280 Greensboro Drive, 7th Floor, McLean, Virginia 22102-3807 (703-761-5000).

Nonprofit World • Volume 14, Number 3 May/June 1996
Published by the Society for Nonprofit Organizations
6314 Odana Road, Suite 1, Madison, WI 53719 • (800) 424-7367

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SAMPLE SUBSTANTIATION ACKNOWLEDGEMENTS

SAMPLE 1

(To be used for contributions of \$250 or more, when no goods or services are provided in exchange for the contribution.)

Name & Address of Charity

To: (donor)

Date: (date of acknowledgement)

Thank you for your contribution to (charity). We are pleased to acknowledge your contribution on (date of receipt), of the following cash or property: (specify amount of cash or describe property given; do not value property, as this is the responsibility of the donor.)

No goods or services were provided in return for this contribution; therefore, the full amount of your contribution is tax deductible. Please retain this receipt for your tax records.

SAMPLE 3

(To be used when *quid pro quo* contributions exceed \$75, and goods or services of more than “insubstantial value” are provided by the donee organization.)

Name & Address of Charity

To: (donor)

Date: (date of acknowledgement)

Thank you for your contribution to (charity). We are pleased to acknowledge your contribution on (date of receipt), of the following cash or property: (specify amount of cash or describe property given; do not value property, as this is the responsibility of the donor).

The (charity) provided the following goods and/or services, with an estimated value of \$____, in return for your contribution: (describe goods and/or services provided to donor).

Under the current tax laws, only the amount of your contribution which exceeds the amount of the good/services provided to you is tax deductible as a charitable contribution. Please retain this receipt for your tax records.

SAMPLE 2

(To be used for contributions of \$250 or more, when only “intangible religious benefits” or items of “insubstantial value” are provided in exchange for the contribution.)

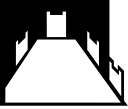
Name & Address of Charity

To: (donor)

Date: (date of acknowledgement)

Thank you for your contribution to (charity). We are pleased to acknowledge your contribution on (date of receipt), of the following cash or property: (specify amount of cash or describe property given; do not value property, as this is the responsibility of the donor).

No goods or services were provided in return for this contribution except for (items of insubstantial value/intangible religious benefits) as defined by IRS guidelines. The full amount of your contribution is tax deductible. Please retain this receipt for your tax records.



If no goods or services were provided, you must state this fact.

excess of any money (and the value of any property) contributed by the donor *over* the value of goods or services provided by the charity.

- It must give the donor a good-faith estimate of the value of the goods or services that the charity is providing in exchange for the contribution.

Note that the quid pro quo disclosure requirement is separate from the written acknowledgement requirement discussed in the first section. However, you can meet both requirements in the same document. Sample 3 on page 21 is an example of a receipt that satisfies both requirements. You may also satisfy the quid pro quo disclosure requirement with your initial solicitation.

As noted earlier, you may ignore the quid pro quo rules if the benefits you give in return for contributions are only of “insubstantial value.” These include such low-cost items as bookmarks, key chains, or posters bearing the charity’s logo.³

Questions & Answers

Q: Do these rules apply to charity auctions?

A: Yes. If an item to be auctioned has a fair market value of \$250 or more, the charity must give the donor written substantiation of the value. The charity must also provide written disclosure of value to any bidder whose winning bid of \$75 or more exceeds the fair market value of the item.

Q: How much of a quid pro quo contribution is deductible if a donor receives a raffle ticket or chance to win a prize?

A: None. The full contribution is considered the price paid for the raffle ticket or the chance to win, and no part of the contribution is deductible, even if the donor does not win. The same rule applies if the raffle ticket is provided in conjunction with another benefit. For example, a donor gives \$50 to charity and receives a dinner worth \$25. At the dinner, all donors get a raffle ticket for a new car. None of the donor’s \$50 donation is deductible. Without the raffle, \$25 of the donor’s contribution would have been deductible.

Q: Can a donor refuse to accept a quid pro quo benefit from the charity and claim a full deduction for the contribution?

A: Yes. In this case, the donor’s contribution is an outright gift that is fully deductible. However, the donor may not accept any benefits offered from the charity. If the benefits are tickets or the right to attend an event, the donor must return such benefits *before* the event occurs.

Q: If donors accept tickets, but never use them, can they claim a full deduction?

A: No. The test of deductibility is not whether the right to admission is exercised but whether the right was accepted or rejected by the donor.

Q: Do newsletters or other publications distributed by a charity to its donors constitute anything more than token items?

A: Most newsletters are considered to have insubstantial value. However, publications of commercial quality may not meet the criteria for token items.

Charities that understand these rules and implement them properly are better able to help donors avoid confusion and frustration over the deductibility of charitable donations. Such action also limits any liability the charity might incur for noncompliance. When in doubt about any substantiation requirement, you should consult qualified legal counsel. Finally, remember that the IRS is continuing to publish additional guidance concerning these substantiation rules. Several issues remain in question; therefore, it is critical for all nonprofits to stay informed. ■

Footnotes

¹The IRS has set down these rules in IRC Section 170(f)(8).

²Don’t include a valuation of the property. The donor of the property, not the nonprofit, is responsible for valuing it.

³Limits for low-cost items are adjusted annually for inflation. Originally set at \$5, the limit is now \$6.60.

Selected References

Hopkins, Bruce R., *A Legal Guide to Starting and Managing a Nonprofit Organization*.

Hummel, Joan, *Starting and Running a Nonprofit Organization*.

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Temkin, Terrie, “Should You Hold a Raffle?”, *Nonprofit World*, January–February 1995.

Tesdahl, D. Benson, “Are You Obeying Quid Pro Quo Rules?”, *Nonprofit World*, September–October 1994.

These publications are available through the Society for Nonprofit Organizations’ Resource Center. For ordering information, see the Society’s *Resource Center Catalog*, included in this issue, or contact the Society at 6314 Odana Road, Suite 1, Madison, Wisconsin 53719 (800-424-7367).