How to Handle Charitable Contributions
What is a Charitable Contribution?

• A donation or gift to, or for the use of a qualified §501(c)(3) organization that is:
  – Voluntary
  – Made without getting or expecting substantial benefits in return

• To ensure that an organization is tax-qualified under §501(c)(3) check IRS Publication 78, *Cumulative List of Organizations*, available at IRS.gov
  • Note: Publication 78 is the only authoritative source, therefore, even if an organization is able to produce an IRS determination letter, it’s exempt status might have changed since the letter.
# Deductible Contribution vs. Not Deductible Contribution

<table>
<thead>
<tr>
<th>Deductible</th>
<th>Not Deductible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Religious</td>
<td>Civic League</td>
</tr>
<tr>
<td>Charitable</td>
<td>Social or Sports club</td>
</tr>
<tr>
<td>Educational</td>
<td>Labor Union</td>
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<tr>
<td>Scientific</td>
<td>Social Welfare Organization</td>
</tr>
<tr>
<td>Preventing cruelty to children/ animals</td>
<td>Political group or candidate</td>
</tr>
</tbody>
</table>

- **Note:** A contribution may not be deductible if the organization was not created under the laws of the United States. (Certain exceptions apply for gifts to Mexican, Canadian and Israeli charities.)
Deductible Contributions

- Cash or cash equivalents, such as gift cards.
- Marketable securities.
- Privately held securities.
- Real or tangible personal property.
- Intangible personal property, such as patents, copyrights, etc.
- Unreimbursed out-of-pocket expenses.
What is Not Deductible?

• Value of time or services, including professional services.
• Partial interests in property – such as donated office space or use of a facility.
• Lobbying expenses.
• The price of raffle, bingo, or lottery tickets.
• Bids at a silent auction unless the amount paid exceeds the value of the item purchased.
• Tuition paid to a school or other amounts designated for a specific individual or small group of individuals.
• Money or property a donor gives to a non-501(c)(3) tax-exempt organization, such as a social welfare organization, political action committee or political party.
How Much Can A Donor Deduct?

• There are limits on how much a donor can deduct as a charitable contribution in any given year.
• A donor must itemize his or her deductions in order to claim a deduction for a charitable contribution.
• The deduction for contributions to a public charity cannot exceed 50% of donor’s adjusted gross income. The limit is 30% for contributions to private foundations.
• A donor can carry over any contributions he or she cannot deduct because they exceed the limits for 5 years. The total charitable deduction for any subsequent year cannot exceed 50% of adjusted gross income for that year.
How Much Can a Donor Deduct?

- A donor may only take a contribution deduction to the extent that his or her contribution exceeds the fair market value of the goods or services the donor receives in return for the contribution.
  - The donor must reduce the amount contributed by the value of the benefit received (even if the benefit was donated to the organization).
    - Example:
      The donor pays $65 for a ticket to a church dinner. The fair market value of the dinner is $25. The deductible contribution is limited to $40 ($65 - $25 = $40), even if the cost of the dinner was donated to the church.
  - If the amount the donor pays (i.e. in an auction) is less than the fair market value of the goods or services received in return, then the donor is not entitled to a deduction.
Disclosure for Payments in Excess of $75

• If an organization receives *a quid pro quo* payment from a donor – partly as a contribution and partly to pay for goods and services provided by the organization – such as a ticket to a fundraising dinner or concert, and the payment exceeds $75, the organization must provide a written disclosure to the donor.

• The written disclosure must:
  – Inform the donor that the amount of the contribution that is deductible for federal tax purposes is limited to the excess of money received by the organization over the *value* of goods or services provided to the donor.
  – The organization must also provide a donor with a good faith estimate of the fair market value of the goods or services.
  – The disclosure may be made after the event or at the time the ticket or payment is solicited.

• If payment is $75 or less, the organization is not required to provide the written disclosure, but the rule on the amount that can be deducted still applies.
Exceptions

• There are exceptions to the rule that the amount of a donor’s deduction must be reduced by the value of any goods and services received in exchange for the donation:
  – Token goods and services.
  – Certain membership benefits.
  – Intangible religious benefits.
Exceptions

– *Token goods and services* are benefits given to a donor as part of a fundraising campaign, such as with *public television*. In order to be considered “token” either:
  • The fair market value of the benefits do not exceed the lesser of 2% of the donation or $104, or
  – If the donation is $52 or more, the items provided must bear the organization’s name or logo (e.g., calendars, mugs or posters) and the items are “low cost” with a total cost to the organization of no more than $10.40 per year.
  • Free, unordered low-cost articles are also considered to be insubstantial.
  – (These amounts are adjusted annually for changes in the cost of living.)
Exceptions

- *Intangible religious benefits* are benefits provided by an organization operated exclusively for religious purposes that are not usually sold in commercial transactions.
  - Examples include admission to a religious ceremony and a *de minimis* tangible benefit, such as wine used in a religious ceremony. Benefits that are not intangible include education leading to a recognized degree, travel services, and consumer goods.
Exceptions

• **Membership benefits:** A donor may deduct membership fees or dues to an organization, but only to the extent it is more than the value of the membership benefits the donor receives.

• However, an annual membership benefit is considered to be insubstantial if the donor gets it in return for an annual payment of $75 or less and consists of privileges such as:
  – Free or discounted admissions to the charitable organization’s facilities or events.
  – Discounts on purchases from the organization’s gift shop.
  – Free or discounted parking.
  – Free or discounted admission to member-only events sponsored by an organization, where a per-person cost (not including overhead) is within the “low-cost articles” limits.
Penalty for Failure to Comply

• Penalty
  – If an organization fails to disclose the value of any property or service given in connection with a payment of more than $75, the organization is subject to a penalty. The penalty is $10 per contribution, not to exceed $5,000 per fundraising event or mailing.
  – An organization may avoid the penalty if it can show that failure to meet the requirements was due to reasonable cause.
Acknowledging Donations

• As a general rule, an organization is not responsible for providing the donor with a written acknowledgment of his or her donation.

• But in order to claim a deduction the donor must have a record of the donation, such as a bank record, credit card receipt or written acknowledgement from the organization.

• However, if a donor makes a single donation of $250 or more, the donor must have a contemporaneous written acknowledgement of the donation from the organization.

• “Contemporaneous” means that the donor has the written acknowledgement as of the date that he or she files the tax return for the year in which the donation is made or the due date for the return, whichever is earlier.

• An organization can provide one acknowledgement at year’s end for all donations made by the donor during the year. (Recommended that organization provides by January 31st.)
Written Acknowledgements

• A contemporaneous written acknowledgement of a donation of $250 or more must contain all of the following:
  • The name of organization.
  • The amount of cash contributed.
  • A description (but not the value) of any non-cash contribution.
  • One of the following, whichever is applicable:
    – A statement that no goods or services were provided by the organization in return for the contribution;
    – A description and good faith estimate of the value of goods or services that were provided in return for the contribution; or
    – A statement that the goods or services that an organization provided in return for the contribution consisted entirely of intangible religious benefits.

• Failure to include all of this in a contemporaneous acknowledgement will result in a denial of the deduction.
Donor’s Responsibilities for Contributions by Payroll Deduction

• In order to claim a deduction, the donor must maintain one of the following records:
  – A pay stub, Form W-2, or other document furnished by the employer.
  – A pledge card prepared by or at the direction of the organization.

• Each payroll deduction is a separate contribution and only a single contribution of $250 or more requires a contemporaneous written acknowledgment.
Unreimbursed Expenses

• While a donor cannot deduct the value of services given to an organization, may deduct out-of-pocket expenses paid in connection with giving services to an organization.

• The amounts must be:
  – Unreimbursed,
  – Directly connected with the services,
  – Expenses the donor had only because of the services given, and
  – Not personal, living, or family expenses. (Donor can deduct the cost of a uniform, but only if it is not suited for everyday use.)

• In addition, a donor must maintain adequate records of the unreimbursed expenses.
  • If any single out-of-pocket expense is $250 or more, donor must satisfy the requirements for a contemporaneous written acknowledgment from the organization, including a description of the services provided in connection with the out-of-pocket expenses.
Non-Cash Contributions

• For a non-cash contribution, what records a donor must keep depends on the amount of the deduction.
• For donations of less than $250, a donor must have a letter or other written communication from the charitable organization showing:
  • The name of the charitable organization,
  • The date and location of the charitable contribution, and
  • A reasonably detailed description of the property.
• The donor is not required to have a receipt where it is impractical to get one. (For example, if the property is left at a charity's unattended drop site.)
Non-Cash Contributions

• If a donor wants to claim a deduction of between $250 and $500 for a non-cash charitable contribution, the donor must get and keep a contemporaneous written acknowledgment of the contribution from the organization. It must contain the same information required for a cash contribution, including a description (but not the value) of any property contributed.

• If a donor makes more than one contribution of $250 or more, he or she must have either a written acknowledgment for each or one acknowledgment that shows the total contributions.

• In figuring the value of donation, the donor may combine claimed deductions for all similar items of property donated to any charitable organization during the year. (Such as donations of clothing or food.)
Non-Cash Contributions

• If a donor claims a charitable deduction over $500 but not over $5,000 for non-cash charitable contributions, he or she must have the written acknowledgment described above, and must file Form 8283 with tax return.

• The donor’s records must also include:
  • How the donor got the property, (i.e., by purchase or gift);
  • The approximate date the donor got the property; and
  • The cost or other basis, of property. If the property has been held for 12 months or more, the donor must have this record only if available. (These requirements do not apply to publicly traded securities.)

• For donations of over $5,000, the donor must also have a qualified appraisal.
Special Rules - Clothing and Household Items

- General Rule: a donor can deduct the fair market value of household items at the time of the contribution. Household items must be in good condition in order to claim a deduction.

<table>
<thead>
<tr>
<th>Household items:</th>
<th>NOT household items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture</td>
<td>Food</td>
</tr>
<tr>
<td>Furnishings</td>
<td>Paintings</td>
</tr>
<tr>
<td>Electronics</td>
<td>Antiques</td>
</tr>
<tr>
<td>Appliances</td>
<td>Other art objects</td>
</tr>
<tr>
<td>Linens</td>
<td>Jewelry and Gems</td>
</tr>
<tr>
<td>Other similar items</td>
<td>Collections</td>
</tr>
</tbody>
</table>
Gifts of Stock

• Exchange Traded Stocks:
  – For deduction purposes, generally, the value of donated stocks is the fair market value (FMV) at the time the donation was made, regardless of when or for how much the charity sells the stock.
  – If there is an active market for the contributed stocks or bonds on a stock exchange, in an over-the-counter market, or elsewhere, the FMV of each share or bond is the average price between the highest and lowest quoted selling prices on the valuation date.

• Closely Held Corporation Securities:
  – The FMV of bonds should be determined by considering the soundness of the security, the interested yield, and the date of maturity.
  – The FMV of stock should be determined by considering the company’s net worth, prospective earning power and dividend-paying capacity, as well as other relevant factors.
Organization’s Responsibilities for Certain Donated Property

• In addition to the contemporaneous written acknowledgement, the organization must acknowledge receipt of all or part of any property donated by person that is worth more than $5,000. Acknowledgement is on Schedule B of Donor’s Form 8283.

• Organization should receive a copy of Form 8283.

• If organization sells any property listed in Section B of Form 8283 within three years of donation, organization must file Form 8282.
Donor’s **Responsibilities** for Noncash Contributions
Organization’s **Responsibilities** for Property Sold Within 3 Years
Organization’s Responsibilities for Certain Donated Property

• Organization does not have to file Form 8282 if:
  – The specific item or set of items donated to the organization was originally valued at $500 or less.
  – Donation was publicly traded securities.
  – Property is consumed as part of the organization’s charitable mission.
Vehicles (Cars, Boats, Airplanes)

• Donors may claim a deduction for donations of certain vehicles, including cars, boats and airplanes.
• If the value of the vehicle is less than $250, the donor may claim a deduction on his or her return.
• For a donation of a vehicle worth $250, but $500 or less, the donor needs a written acknowledgement from the organization that contains the same information as any other donation of $250 or more.
• For a deduction of more that $500, the organization must provide Form 1098C. This can also serve as the contemporaneous written acknowledgement. (Donor must attach Form 1098C to tax return.)
• For deductions of more than $500 the amount of the deduction and contents of the acknowledgment depend on what the organization intends to do with the vehicle.
## Vehicles (Cars, Boats, Airplanes)

<table>
<thead>
<tr>
<th>Use of vehicle by organization</th>
<th>Donor’s deduction</th>
<th>In addition to standard language for written acknowledgments, the organization must state:</th>
</tr>
</thead>
</table>
| Sell the vehicle              | Smaller of gross proceeds from sale or fair market value (“blue book” value) | • That it was sold in an arm’s length transaction between unrelated parties  
• Date sold  
• Gross proceeds from the sale  
• Statement that the deduction may not exceed the gross proceeds from the sale |
| Use vehicle to substantially further regular activities and use is considerable. | The fair market value | • That it intends to make use the vehicle  
• A detailed description of the intended use  
• Duration of the intended use  
• Certify that it will not be sold before completion of use |
| Materially improve vehicle by making a major repair (donor cannot pay for improvements) | The fair market value | • That it intends to improve the vehicle  
• A detailed description of the improvement  
• Certify that it will not be sold before completion of the improvement |
| Give or sell the vehicle to the needy individual | The fair market value | • That it intends to give or sell the vehicle at a price below fair market value  
• The gift or sale is in direct furtherance of the charity’s charitable purpose of relieving the underprivileged who are in need of means of transportation |
Consequences of Improper Receipt

• Reputation
  – A donor that cannot claim a deduction due to improper receipt is unlikely to donate again.
More Information

• Publication 526, Charitable Contributions
• Publication 561, Determining the Value of Donated Property
• Publication 1771, Charitable Contribution Substantiation and Disclosure Requirements
• Publication 4303, A Donor’s Guide to Vehicle Donations

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