

Charitable Contributions

Introduction

On January 1, 1994, Congress enacted a new set of guidelines that charitable organizations must follow when issuing receipts for gifts and donations. Among other things, the guidelines list specific information that must be included on a properly prepared receipt. **The guidelines are important because, if a charitable organization fails to provide a properly prepared receipt to a donor, then the donor will be prohibited from claiming the gift as a deduction for federal income tax purposes.**

While the burden of obtaining proper records is placed on the donor, most charitable organizations understand that it is in their best interest to provide proper receipts to those who give to their ministries. Indeed, if a donor loses a tax exemption because a particular charitable organization has failed to provide a proper receipt, then that charitable organization may experience a sudden decline in its charitable contributions - at least from one donor.

Although the new rules took effect in 1994, the Internal Revenue Service ("IRS") has issued a notice giving donors until October 16, 1995, to obtain receipts that comply with the new guidelines. If your ministry has not been sending proper receipts to your donors, then you should change your current system so that it complies with the guidelines, as well as provide proper receipts to your donors prior to the October deadline.

The new guidelines are explained in more detail below. Following the discussion you will find a "Summary Table" which recaps the important items in the guidelines.

Discussion

Most, if not all, AACS ministries are currently providing receipts to their donors. Nevertheless, the new guidelines require that the "donee" organization provide specific information on the receipt. As noted above, if the required information is not contained on the receipt, then the donor can lose his or her tax deduction.

The new guidelines primarily affect receipts for the following three types of gifts:

- Cash contributions of \$250.00 or more;
- Cash contributions of more than \$75.00, if the donee receives goods or services in exchange for the gift (also known as a quid pro quo gift);
- Contributions of noncash property valued at \$250.00 or more

A. Cash contributions of \$250.00 or more

Any cash contribution of \$250.00 or more made on or after January 1, 1994, will not be deductible for federal income tax purposes unless the donor has a properly

prepared receipt from the charitable organization. The receipt must contain the following three items:

1. The donor's name;
2. The amount of each separate contribution of \$250.00 or more (do not lump all contributions together in one amount); and
3. A statement indicating whether the church or school provided any goods or services to the donor in exchange for the gift (if goods or services were provided, the receipt must include a good faith estimate of the value of the goods or services).

If no goods or services were provided to the donor, then the receipt should contain the following statement:

"No goods or services were provided in exchange for this gift."

If goods or services were provided to the donor, then a description of the goods or services, as well as a good faith estimate of the fair market value of the goods or services, must be listed on the receipt. This is important because the donor may deduct only that portion of the gift which exceeds the fair market value of goods or services received in exchange for the gift. This is discussed in more detail in Section B below.

According to the new guidelines, each gift should be considered separately. Therefore, an individual could give a monthly gift of \$249.00 to a ministry and not be required to support the gifts with receipts. Nevertheless, while a single contribution of less than \$250.00 does not require a properly prepared receipt, most donors will want receipts to substantiate all of their gifts. For that reason, it is a good practice to send out a properly prepared receipt for each contribution, regardless of the actual size of the contribution.

Please note that receipts must be received by the donor prior to the date the donor files a tax return claiming a deduction for the contribution. If the donor has received an extension of time for filing the tax return, then he or she has until the extended deadline to obtain the necessary receipts. As noted above, however, all receipts for gifts given during the 1994 tax year must be obtained by October 16, 1995.

B. Cash contributions of more than \$75.00 where the donee receives goods or services in exchange for the gift

As shown above, a properly prepared receipt must be provided for every cash contribution of \$250.00 or more. This \$250.00 limit is lowered significantly, however, if the donor receives goods or services in exchange for the gift. Where the donor receives goods or services in exchange for the gift (otherwise known as a quid pro quo gift), a receipt must be provided if the gift totals more than \$75.00.

When a donor receives goods or services in exchange for a gift, the following information must be included on the receipt:

1. The donor's name;
2. A good faith estimate of the value of the goods or services furnished to the donor; and
3. A statement informing the donor that the only portion of the contribution which is tax deductible is that amount which exceeds the value of the goods or services received.

In many situations, goods or services will be exchanged for a gift in connection with a fundraising event. For example, a charitable organization may hold a banquet in an effort to raise money for a particular project. The organization may set a fair market value of \$30.00 per ticket for the banquet. If a donor buys two tickets for \$60.00 but contributes a gift of \$200.00 to the organization, then the donor has made a tax deductible contribution of \$140.00, i.e., \$200.00 minus the \$60.00 value in tickets he or she has received.

The IRS has set forth two exceptions to the rules concerning quid pro quo gifts:

1. Any token of appreciation given to the donor which has a *de minimis* (insubstantial) value should not be counted against the donor's contribution;
2. Any good or service that does not exceed the lesser of \$66.00 or 2 per cent of the contribution should not be counted against the donor's contribution.

When undertaking a special fundraising event, it may be a good idea to list the value of any goods or services offered in connection with the event in the promotional materials. Establishing a value for the goods or services prior to receiving any donations will simplify the receipt process.

C. Contributions of noncash property valued at \$250.00 or more

In some cases, a donation will be made in the form of noncash property, such as a van or a copy machine. If a contribution of noncash property is valued at \$250.00 or more, then the new guidelines apply. The receipt acknowledging this type of gift should include the following:

1. The donor's name;
2. A description of the property (no value needs to be stated); and
3. A statement indicating whether the church or school provided any goods or services to the donor in exchange for the gift (if goods or services were provided,

the receipt must include a good faith estimate of the value of the goods or services).

If goods or services have been provided in exchange for the gift of noncash property, then only the amount of the gift that exceeds the value of the goods or services may be deducted for federal income tax purposes. Goods or services of an insubstantial value, or goods or services that do not exceed \$66.00 or 2 per cent of the contribution, should not be counted against the value of the contribution for tax purposes.

D. Contributions of noncash property valued at more than \$500.00

Rules applying to the donation of noncash property valued at more than \$500.00 have been in existence for several years and were not altered by the new guidelines addressed in this Memorandum. The rules governing these types of gifts require that certain records be maintained by both the donor and the donee. For gifts valued at more than \$5,000.00, the donor must obtain a qualified appraisal of the donated property and must submit a Form 8283 to the IRS along with the Form 1040. If your ministry is the recipient of a contribution of noncash property valued at \$500.00 or more, please contact a local attorney or accountant to ensure that both your ministry and the donor have the proper documentation to support the contribution.

E. Summary Table

Below is a summary of the substantiation requirements for charitable contributions. Those portions of the Table that are in bold represent the areas affected by the new guidelines.

Cash contribution less than \$250.00	Receipt is not required, but is encouraged; cash contributions of less than \$250.00 can be supported with (1) a canceled check, or (2) a receipt, letter or other written record from the donee organization showing the name of the donor, the name of the organization, the date of the contribution, and the amount of the contribution.
Cash contribution of \$250.00 or more	Properly prepared receipt is required; the receipt should satisfy the following requirements: (1) include the name of the donor; (2) list each contribution of \$250.00 or more separately; (3) include a statement indicating whether the donee organization provided any goods or services to the donor in exchange for the contribution; (4) include a good faith estimate of the value of any goods or services provided in exchange for the contribution; and (5) be sent to the donor prior to the date the donor files a tax return claiming a deduction for the contribution.
Cash contribution of \$75.00 or less goods or services are provided in exchange	Receipt is not required, but is encouraged; although a receipt is not required, only the

for the gift	amount of the contribution that exceeds the value of the goods or services provided to the donor is deductible for federal income tax purposes.
Cash contribution of more than \$75.00 when goods or services are provided in exchange for the gift	<u>Properly prepared receipt is required</u> ; the receipt should satisfy the following requirements: (1) include the name of the donor; (2) include a good faith estimate of the value of the goods or services provided to the donor; (3) include a statement that the amount of the contribution which is tax deductible is limited to the amount that exceeds the value of the goods or services provided in exchange for the gift; and (4) be sent to the donor prior to the date the donor files a tax return claiming a deduction for the contribution. <u>Please note that the receipt need NOT include the value of any goods or services that have a <i>de minimis</i> (insubstantial) value.</u>
Contributions of noncash property valued at less than \$250	New rules do not apply; this gift may be substantiated with a receipt from the donee organization showing the name of the donor, the name of the donee organization, the date and location of the contribution, and a description of the property (an estimated value of the property is not required).
Contributions of noncash property valued at \$250 or more	Properly prepared receipt is required; the receipt should satisfy the following requirements: (1) include the name of the donor; (2) include a description of the property (an estimated value is not required); (3) include a statement indicating whether the donee organization provided any goods or services to the donor in exchange for the contribution; (4) include a good faith estimate of the value of any goods or services provided in exchange for the contribution; and (5) be sent to the donor prior to the date the donor files a tax return claiming a deduction for the contribution.

Conclusion

This Memorandum has been designed to alert you to new guidelines affecting the substantiation of charitable contributions. While the new guidelines may require some changes in your current bookkeeping system, any changes should be handled fairly easily.

The best practice is to provide receipts to donors, regardless of the size of the gift. To ensure that the receipts will be of use to your donors, be certain that they comply with

the new charitable contribution guidelines. Remember, if your receipts do not include the information required by the guidelines, then your donors will be prohibited from claiming their gifts as deductions for federal income tax purposes.