



What Must a Tax-Exempt Organization Do To Acknowledge Donations?

An important feature of being a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code is the ability to accept tax-deductible donations. There are numerous IRS rules that govern how to acknowledge such donations. A summary of these rules, sample written acknowledgments, and links to more information on this topic are provided below.

THE IRS RULES ON ACKNOWLEDGING DONATIONS

1. Substantiation of Contributions of Less than \$250

In order for a donor to take a tax deduction for a contribution of less than \$250, the donor must have either (i) a bank record (bank or credit union statement, canceled check, or credit card statement) or (ii) a written communication from the organization that includes the name of the organization, the date of the contribution, and the amount of the contribution.

(This is a change from the old rule that a written record prepared by the donor, such as an entry in a check register, was sufficient for donations under \$250.)

Contributions made by payroll deduction can be substantiated if the donor has (i) a pay stub, W-2 or other document from his/her employer stating the amount withheld for payment to charity, and (ii) a pledge card or similar document prepared by or at the direction of the charity that shows the name of the donee.

Although a 501(c)(3) organization is not required to provide a written acknowledgement for donations under \$250, it is good practice to provide acknowledgements for all donations.

2. Substantiation of Contributions of \$250 or More

In order for a donor to take a tax deduction for a contribution of \$250 or more, the donor must receive a **contemporaneous written acknowledgement** of the donation from the organization. This means that the donor must receive the acknowledgement by the earlier of (i) the date the donor files his tax return for the year the donation was made, and (ii) the due date, including extensions, for filing the return.

There is no required format for the acknowledgement (although a canceled check is not sufficient), but it must provide the following information:

- The amount of the monetary contribution.
- A description of any donated property. The organization should **not** place a monetary value on donated property - that is the donor's responsibility. Rather, the organization should provide a detailed description that clearly describes the donated property (e.g., "thank you for your donation of a Brand X computer, model number 1234, keyboard, and 17" monitor" rather than "thank you for your donation of a computer").

- A statement that the organization did not provide any goods or services in exchange for the contribution. However, if the organization did provide goods or services in exchange for the contribution, it must provide a good faith estimate of the fair market value of those goods or services (see the discussion of “quid pro quo” contributions below).

Organizations are not required to provide receipts for donations received through employer withholding arrangements. Instead, a donor may substantiate his/her contribution with (i) an employer-generated document such as a W-2 or a pay stub, and (ii) a statement from the organization that no goods or services were provided in exchange for the donation.

Separate acknowledgements may be provided for each donation received from the same donor, or one acknowledgement may be used to substantiate several contributions made in the same year.

3. Charitable Disclosure Requirements for “Quid Pro Quo” Contributions

A “quid pro quo” contribution is a contribution made partly as a donation and partly for goods or services provided to the donor by the organization. Common examples are contributions by a donor to attend a charity's golf outing, dinner, or concert.

If the total contribution to the organization exceeds \$75 and the donor receives goods or services in return, the organization must provide a written statement or acknowledgement that includes the following: (i) a good faith estimate of the **fair market value** (“FMV”) of the goods and services provided to the donor (see the discussion of FMV below); and (ii) a statement to the effect that the donor can only deduct that portion of his/her donation that exceeds the FMV of the goods and/or services received. This statement can appear either in the solicitation (e.g., invitation to an event) or in the written acknowledgement of the contribution. **The IRS can impose financial penalties on charities that fail, without reasonable cause, to provide adequate quid pro quo acknowledgements.**

FMV is the price at which property would change hands between a willing buyer and a willing seller, neither having to buy or sell, and both having reasonable knowledge of all of the relevant facts. An organization may use any reasonable method to estimate FMV, so long as it applies the method in good faith. One method is to use the FMV of similar or comparable goods or services, which may be considered similar or comparable even if they do not have the unique qualities of the goods or services being valued. **Note: the price that the charity pays for the goods or service is not necessarily the FMV** (although cost is often an important factor in determining FMV).

Example: ABC Inc., a 501(c)(3) charitable organization, holds a golf outing fundraiser at the Swanky Country Club. ABC charges \$200 per golfer. The Club donates the use of its facilities to ABC for this event (therefore, the cost for ABC is zero), but the actual FMV of the benefit (playing golf at the Club) is \$125 per donor/golfer. Here, \$75 would be deductible (\$200 ticket price, less the \$125 FMV of the benefit). Because the donor/golfer's payment (quid pro quo contribution) exceeds \$75, a disclosure statement must be furnished by ABC to each donor/golfer.

There are exceptions when disclosure of the value of benefits provided is not required, as discussed in the section that follows.

4. When Disclosure of Value is Not Required

The value of goods and services provided by an organization does not need to be disclosed to a donor in the following circumstances:

- **Value of the goods/services provided to the donor is “de minimis” (insubstantial).** This is defined as follows (the amounts below are for taxable years beginning in 2009, which may be adjusted annually by the IRS):
 - when the fair market value of all of the benefits received in connection with the payment is not more than (i) 2% of the contribution or (ii) \$95, whichever is less. For example, a gift valued at no more than \$20 would be insubstantial against a contribution of \$1,000. A gift valued at \$100 against a contribution of \$4,000 would require disclosure because the value of the gift exceeds the \$95 ceiling.
 - when the payment by the donor is at least \$47.50, and the donor receives a low-cost item or items bearing the organization's name or logo (e.g., a coffee mug or a keychain), the total cost of which is \$9.50 or less.
- **No donative element.** The details of this rule are when low-cost items are provided to a potential donor for free without having been ordered by the potential donor (e.g., free return address labels), the cost of which is \$9.50 or less for all such items in the aggregate distributed to a single potential contributor in a calendar year. Any such item must be accompanied by a request for a charitable contribution and a statement that the potential donor may retain the item whether or not he/she makes a contribution.
- **Insubstantial membership benefits.** The details of this rule are that if the donor makes an annual payment of \$75 or less and receives only annual membership benefits consisting of (i) rights or privileges (other than the right to purchase tickets for college athletic events) that can be exercised often during the membership period (e.g., discounted admission), and/or (ii) admission to events that are open only to members and the cost per person is within the limits for low-cost articles described above.
- **Intangible religious benefit.** In this situation, the donor receives only an intangible religious benefit provided by an organization organized exclusively for religious purposes, and the benefit is not generally sold in a commercial transaction outside the donative context (e.g., admission to a religious ceremony that does not charge for admission).

SAMPLE WRITTEN ACKNOWLEDGEMENTS

Example #1: Donation of money, no benefit to the donor

Donor donates \$500 to ABC Charity. ABC's acknowledgement letter should contain language similar to the following:

Dear Mr. Donor:

Thank you for your donation of \$500. No goods or services were provided to you in return for your donation. Therefore, the full amount of your contribution is deductible for federal income tax purposes.

Sincerely,

ABC Charity

Example #2: Donation of property, no benefit to the donor

Donor donates a computer and software to ABC. ABC's acknowledgement letter should contain language similar to the following:

Dear Ms. Donor:

Thank you for your donation of a Micron computer, model #12345; keyboard; 15" monitor; mouse; and EZ Plan financial planning software Version 2.0. No goods or services were provided to you in return for your donation. Therefore, the full amount of your contribution is deductible for federal income tax purposes.

Sincerely,

ABC Charity

Example #3: Donation where the donor receives a benefit

Donor buys a ticket to ABC's annual charity dinner. The cost of the ticket is \$200, and the fair market value of the dinner is \$75. ABC's acknowledgement letter should contain language similar to the following:

Dear Mr. Donor:

Thank you for the purchase of a \$200 ticket to our Annual Dinner. The fair market value of the dinner is \$75. Therefore, the amount of your contribution that is deductible for federal income tax purposes is \$125.

Sincerely,

ABC Charity

FOR MORE INFORMATION

- IRS Article [Charitable Organizations - Substantiation and Disclosure Requirements](#)
- IRS Publication 1771 [Charitable Contributions: Substantiation and Disclosure Requirements](#)

Please also feel free to [contact](#) the Pro Bono Partnership for further guidance.

IRS Circular 230 Disclosure: To ensure compliance with requirements imposed by the IRS, we inform you that any tax advice contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of: (i) avoiding penalties under the Internal Revenue Code or any other U.S. federal tax law; or (ii) promoting, marketing, or recommending to another party any transaction or matter addressed herein.

This document is provided as a general informational service to volunteers, clients, and friends of the Pro Bono Partnership. It should not be construed as, and does not constitute, legal advice on any specific matter, nor does distribution of this document create an attorney-client relationship.

Copyright 2009 Pro Bono Partnership, Inc. All rights reserved. No further use, copyright, dissemination, distribution, or publication is permitted without the express written consent of Pro Bono Partnership, Inc.

Revised November 2009.