



# ABC's of charitable contributions for 501(c)(3) organizations



# Today's presenters

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# Agenda topics include

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- Examples of qualified and unqualified organization
- Charitable donations that are allowed by IRS
- Acceptable non-cash contributions
- Rules involving vehicle donation
- Required written acknowledgement for donation
- When significant intervening use applies
- Donors' recordkeeping responsibilities
- A brief summary on disaster relief



# What's a charitable contribution?

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- A donation or gift to, or for the use of, a qualified organization that is voluntary and made without getting, or expecting to get, anything of equal value.



# Examples of qualified organizations

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- Churches, synagogues, temples, mosques, and other religious organizations
- Federal, state, and local governments
- Nonprofit schools and hospitals
- The Salvation Army, American Red Cross, Goodwill Industries, United Way, Boy Scouts of America, etc.
- War veterans' groups
- Expenses paid for a student living with you



# Non-qualified organizations

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- Civic leagues, social and sports clubs, labor unions
- Foreign organizations
- Groups operated for personal profit
- Groups that lobby for law changes
- Homeowners' associations
- Individuals
- Political groups or candidates for public office
- Employee association



# Types of charitable contributions

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- Money or property given “for the use of” your organization to further is organizational purpose.
- A contribution is “for the use of” a qualified organization when it is held in a legally enforceable trust by or for the qualified organization.
- The donor’s contributions must be received by a qualified organization and not set aside for use by a specific person.



# Giving property/increased value

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- Donors can contribute property with a fair market value that is more than their basis in the property.
- The donor may have to reduce the fair market value by the amount of appreciation (increase in value).
- The charity should encourage the donor to seek the advice of a tax profession.

These are types of property:

- Ordinary Income property
- Capital gain property



# Ordinary income property

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- Property that – for income tax purposes – donors would have recognized ordinary income or short-term capital gain had they sold it at fair market value on the date it was contributed.
- Examples of ordinary income property: inventory, property used in a trade or business, works of art created by the donor, manuscripts prepared by the donor, and capital assets held one year or less.



# Deduction/ordinary income property

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- The amount donors can deduct for a contribution of ordinary income property is its fair market value minus the amount that would be ordinary income or short-term capital gain if you sold the property for its fair market value.



# Capital gain property/assets

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- Capital gain property includes most items of property that donors own and use for personal purposes or investment.
- Examples: stocks, bonds, appreciable artworks, jewelry...
- Donors may have to treat certain real property and depreciable property as part ordinary income property and part capital gain property.
- For more information, review Publication 526.



# Capital gain property/value

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- Donors may deduct the fair market value for a contribution of capital gain property.
- A special 30% limit of adjusted gross income applies to contributions of capital gain property to 50% limit organizations.
- The special 30% limit does not apply when the donors choose to reduce the fair market value of the property by the amount that would have been long-term capital gain if you had sold the property. Instead, only the 50% limit applies.



# Capital gain property/30% limits

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- The deduction of a contribution subject to one 30% limit does not reduce the amount donors can deduct for contributions subject to the other 30% limit.
- The total you deduct cannot be more than 50% of your adjusted gross income.
- Encourage donors to seek the advice of a tax professional.



# Capital gain property/Example

- The donor's adjusted gross income is \$50K. During the year, the donor gave capital gain property with a fair market value of \$15K to a 50% limit organization. The donor chooses not to reduce the property's fair market value by its appreciation in value. The donor also gave \$10K cash to a qualified organization that is not a 50% limit organization. The \$15K contribution of property is subject to the special 30% limit. The \$10K cash contribution is subject to the other 30% limit. Both contributions are fully deductible because neither is more than the 30% limit that applies (\$15K in each case) and together they are not more than the 50% limit (\$25K).



## Value exceeding donor benefit

### *Example One*

Donor pays \$65 for a ticket to a dinner dance at a church. The entire \$65 payment goes to the church. The ticket to the dinner dance has a fair market value of \$25. The donor is aware that the ticket's value is less than the payment. The church must state the value of the dinner on the ticket or by other written means in order for the donor to correctly deduct subtract the value of the benefit received (\$25) from the total payment (\$65). The donor can deduct \$40 as a charitable contribution to the church.



## Value exceeding donor benefit

### *Example Two*

The donor pays \$40 to see a special showing of a movie for the benefit of a qualified organization. Printed on the ticket is “Contribution—\$40.” If the regular price for the movie is \$8, the charity must disclose that the contribution is \$32 (\$40 payment – \$8 regular price).



# Contribution equal/donor's benefit

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- *Example:* At a fundraising auction conducted by a charity, the donor pays \$600 for a week's stay at a beach house. The amount paid is no more than the fair rental value. The donor has not made a deductible charitable contribution.



# Donating clothing, household items

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- A donor can contribute property to a qualified organization
- A donor cannot take a deduction for clothing or household items unless the clothing or household items are in good used condition or better.
- **Exception:** A donor can take a deduction for a contribution of an item of clothing or a household item that is not in good used condition or better if the fair market value deducted is more than \$500 and includes a qualified appraisal.



# Car and truck donations

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- Accepting car and truck donations has become a common way for charities to raise funds.
- Many charities accept donations of used cars and trucks as part of their fundraising activities.
- Rules for how much a donor can deduct and the reporting and recordkeeping requirements have changed.
- Reporting requirements involve what the charity does with the vehicle, and its claimed value.



# Vehicle donation program (by agent)

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## ***Guidelines:***

- Establish an agency relationship with the for-profit entity for the charity's benefit.
- Charity should maintain program oversight.
- Charity should review all contracts, establish rules of conduct, choose or change program operators, approve of - or change - all advertising.
- Charity should examine the program's books and records.



# Charity vehicles sold by a for-profit

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- Charity receives either a flat fee or a percentage of the proceeds from the sale of the vehicles.
- Charity has no control over the for-profit entity's activities.
- Donors' contributions (transfers) are made to the for-profit entity and not to the charity.
- Charity cannot license its right to receive tax-deductible contributions.



# Contemporaneous acknowledgement

Charity is required to provide a contemporaneous written acknowledgment to the donor, such as Form 1098-C, *Contributions of Motor Vehicles, Boats, and Airplanes*.

All acknowledgments must include:

- Donor's name and taxpayer identification number
- Vehicle identification number
- Date of the contribution



## Vehicle for \$500-plus by charity

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The written acknowledgement must include:

- Statement certifying that the vehicle was sold in an arm's length transaction between unrelated parties.
- Date the vehicle was sold.
- Gross proceeds received from the sale.
- Statement that the donor's deduction may not exceed the gross proceeds from the sale.



# Written acknowledgement

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- Statement that no goods or services were provided by the charity in return for the donation, if that was the case.
- Description and good faith estimate of the value of goods or services, if any, that the charity provided in return for the donation.



# Significant intervening use

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- To qualify as significant intervening use, the charity must actually use the vehicle to substantially further its regularly conducted charitable activities – and the use must be considerable.
- There is no significant intervening use if the charity's use is incidental or not intended at the time of the contribution.



# Written acknowledgment

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- A statement certifying that the charity intends to make a significant intervening use of the donated vehicle.
- Detailed statement of the intended use.
- Detailed statement of the duration of that use.
- Certification that the vehicle will not be sold before completion of the use.



# Examples

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- An individual donates a used van to a charity that delivers meals to needy individuals. The charity only uses the vehicle a few times to deliver meals and then sells the vehicle. Because the charity's use was infrequent and incidental, it does not qualify as significant intervening use.
- The charity uses the van to deliver meals every day for one year. This use qualifies because it is significant and substantially furthers the charity's regularly conducted activity of delivering meals to needy individuals.



# Improvement of vehicle's value

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- A statement charity intends to improve donated vehicle.
- Detailed description of the intended material improvement.
- Certification the vehicle will not be sold before completion of the improvement.



# What improvements do not include

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- Routine maintenance & cleaning
- Minor repairs
- Paint or other types of finishes (such as rust proofing or wax)
- Removal of dents and scratches
- Cleaning or repair of upholstery
- Installation of theft deterrent devices



# Giving/selling vehicle to needy person

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- The charity intends to give or sell the vehicle to a needy individual at a price significantly below fair market value.
- The gift or sale underscores the charity's charitable purpose of relieving the poor and distressed.



# Non charitable contributions

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- A contribution to a specific individual
- A contribution to a nonqualified organization
- Part of a contribution from which the donor received or expected to receive a benefit
- Value of contributed time or services
- Donor's personal expenses
- Qualified charitable distribution from an individual retirement arrangement (IRA)
- Appraisal fees
- Certain contributions of partial interests in property



## Recordkeeping

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The kind of records the donor must keep depends on the amount of the contributions and whether they are:

- Cash contributions
- Noncash contributions
- Out of pocket expenses when donating your services



# Cash contributions

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You cannot deduct a cash contribution unless the donor keeps one of the following:

- A bank record showing the name of the qualified organization, date, and amount of the contribution.
- A receipt from the qualified organization showing the name of the organization, date, and amount of the contribution.
- Payroll deduction records, such as pay stub, Form W-2, or pledge card.



# Non-cash contributions

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*Deductions less than \$250:*

- Name of the charitable organization
- Date and location of the charitable contribution
- A reasonably detailed description of the property



## Deductions > \$250, less than \$500

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- The acknowledgment must contain the information in items (1) through (3) under deductions of less than \$250.
- The acknowledgment must be in writing.
- Include a description of any property contributed.
- Whether the qualified organization gave any goods or services as a result of the contribution.
- A description and good faith estimate of the value of any goods or services described in (b).



# Publications on car donations

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- Publication 4302, *A Charity's Guide to Car Donations*
- Publication 4303, *A Donor's Guide to Car Donations*
- Both are available on IRS.gov under the Forms & Pubs section



# Insubstantial goods and services

- Fair market value of the benefits received does not exceed the lesser of 2 percent of the payment or \$102.
- The payment is at least \$51, the only items provided bear the organization's name or logo (e.g., calendars, mugs, or posters), and the cost of these items is within the limit for "low-cost articles," which is \$10.20.
- Free, unordered low-cost articles are also considered insubstantial.



# Insubstantial membership benefit

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- 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.



# Religious benefits exception

- If a religious organization provides only “intangible religious benefits” to a contributor, the acknowledgment does not need to describe or value those benefits.
- Intangible religious benefits are provided by a tax-exempt organization operated exclusively for religious purposes, and are not usually sold in commercial transactions outside a donation (gift) context.



## Examples

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- Admission to a religious ceremony and a *de minimis* tangible benefit, such as wine used in a religious ceremony.
- Benefits that are not intangible religious benefits include education leading to a recognized degree, travel services, and consumer goods.



# Charitable contribution resources

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- For information on applying for tax exemption:  
[www.irs.gov/Charities-&-Non-Profits/How-to-Apply-to-Be-Tax-Exempt-1](http://www.irs.gov/Charities-&-Non-Profits/How-to-Apply-to-Be-Tax-Exempt-1)
  
- For specific information on disaster relief:  
[www.irs.gov/pub/irs-pdf/p3833.pdf](http://www.irs.gov/pub/irs-pdf/p3833.pdf)



# Disaster relief resources

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- [www.irs.gov/Charities-&-Non-Profits](http://www.irs.gov/Charities-&-Non-Profits)
- [www.stayexempt.irs.gov/](http://www.stayexempt.irs.gov/)
- [www.irs.gov/Charities-&-Non-Profits/Publications-and-Notices-for-Exempt-Organizations](http://www.irs.gov/Charities-&-Non-Profits/Publications-and-Notices-for-Exempt-Organizations), which include:
  1. Publication 526, *Charitable Contributions*, [www.irs.gov/pub/irs-pdf/p526.pdf](http://www.irs.gov/pub/irs-pdf/p526.pdf)
  2. Publication 1771, *Charitable Organizations: Substantiation and Disclosure Requirements*, [www.irs.gov/pub/irs-pdf/p1771.pdf](http://www.irs.gov/pub/irs-pdf/p1771.pdf).



## Send an email

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