



Charitable Contributions:

Donor Substantiation Requirements

There are two general rules that organizations need to be aware of to meet substantiation and disclosure requirements for federal income tax return reporting purposes:

1. A donor is responsible to obtaining a **written acknowledgement** from a charity for any single contribution of \$250 or more before the donor can claim a charitable contribution on his/her federal income tax return.
2. A charitable organization is required to provide a written disclosure to a donor who receives goods or services in exchange for a single payment in excess of \$75.

The information in this brochure does not apply to a donated motor vehicle, boat or airplane if the claimed value exceeds \$500. For information of vehicle donations, see IRS Publication 4302 and 4303.

Written Acknowledgement

A donor cannot claim a tax deduction for any single contribution of \$250 or more unless the donor obtains a contemporaneous, written acknowledgement of the contribution from the recipient organization. An organization that does not acknowledge a contribution incurs no penalty; but, without a written acknowledgement, the donor cannot claim the tax deduction.

An organization can assist a donor by providing a timely, written statement containing the following information:

1. name of organization
2. amount of cash contribution
3. description (but not the value) of non-cash contribution
4. statement that no goods or services were provided by the organization in return for the contribution, if that was the case
5. description and good faith estimate of the value of goods and services, if any, that an organization provided in return for the contribution
6. statement that goods or services, if any, than an organization provided in return for the contribution consisted entirely of intangible religious benefits, if that was the case.

The acknowledgment does not have to include the donor's Social Security number. Valuation of the donated property remains the responsibility of the donor.

Contemporaneous

For the written acknowledgements to be considered contemporaneous with the contribution, a donor must receive the acknowledgement by the earlier of: the date on which the donor actually files his or her individual federal income tax return for the year of the contribution; or the due date (including extensions) of the return.

Goods and Services

As noted above, the acknowledgement must describe goods or services an organization provides in exchange for a contribution of \$250 or more. It must also provide a good faith estimate of the value of such goods or services because a donor must generally reduce the amount of the contribution deduction by the fair market value of the goods and services provided by the organization. Goods or services include cash, property, services, benefits or privileges. However, there are important exceptions as described below:

Token Exception

Insubstantial goods or services a charitable organization provides in exchange for contributions do not have to be described in the acknowledgement.

Goods and services are considered to be insubstantial if the payment occurs in the context of a fund-raising campaign in which a charitable organization informs the donor of the amount of the contribution that is a deductible contribution, and:

1. the fair market value of the benefits received does not exceed the lesser of 2 percent of the payment, or
2. the payment is at least \$45.50, the only items provided bear the organization's name or logo, and the cost of these items is within the limit for "low cost articles," which is \$9.10.*

Free, unordered low-cost articles are also considered to be insubstantial.

Member Benefits

Exception – An annual membership benefit is also considered to be insubstantial if it is provided in exchange for an annual payment of \$75 or less and consists of annual recurring rights or privileges, such as:

1. Free or discounted admissions to the charitable organization's facilities or events
2. discounts on purchases from the organization's gift shop
3. free or discounted parking
4. 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.

Intangible Religious Benefits

Exception – If a religious organization provides only "intangible religious benefits" to a contributor, the acknowledgement does not need to describe or value those benefits. Intangible religious benefits generally are benefits provided by a tax-exempt organization operated exclusively for religious purposes, and are not usually sole in commercial transactions outside a gift context.

Written Disclosure

A donor may only take a contribution deduction to the extent that his/her contribution exceeds the fair market value of the goods or services the donor receives in return for the contribution; therefore, donors need to know the value of goods or services. An organization must provide a written disclosure statement to a donor who makes a payment exceeding \$75 partly as contribution and partly for goods and services provided by the organization. A contribution made by a donor in exchange for goods and services is known as a *quid pro quo* contribution.

A required written disclosure statement must:

- inform a donor that the amount of the contribution that is deductible for federal income tax purposes is limited to the excess of money contributed by the donor over the value of goods and services provided by the organization
- provide a donor with a good-faith estimate of the fair market value of the goods or services

Clearly, these rules require additional substantiation requirements for taxpayers. If you would like assistance in determining how these rules specifically impact you, please feel free to contact us. {06/09}

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