

Tax Compliance for Nonprofit Fundraising Events



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Fundraising events such as galas, dinners, and golf tournaments can provide benefits to charitable organizations including increasing awareness of its charitable mission, raising additional funds and creating favorable publicity. Fundraising events, whether in-person or virtual, can also cause unintended headaches if tax compliance issues are overlooked.

The success of a charitable organization's fundraising event is dependent on the coordination and communications between the charitable organization's fundraising, marketing and accounting departments. All three of these areas are critical to ensure adequate records are completed, maintained and followed.

Each fundraising event has distinct tax reporting requirements. Let's walk through a couple of fundraising events and their respective tax reporting requirements.

Gala or Dinner Events

A charity that hosts a gala or dinner event charges a fee to attend the event. The fee is generally consisting of two parts – the fair market value (FMV) of the dinner as well as any entertainment and a charitable contribution, which is the amount of the fee that exceeds the fair market value of the dinner and entertainment.

At the conclusion of the event, the charity will send an acknowledgement to the participant thanking the individual for attending the event and informing them of the price of the ticket (\$150), the benefits the participant received for attending the event (\$80), and the amount of their charitable contribution (\$70). This information is also disclosed on the charity's form 990.

For all tickets \$75 and over, the charity must provide the donor an acknowledgement regarding the tax-deductible portion of the donation.

How can a charity determine the fair market value of a dinner and/or entertainment?

The key word to remember is reasonable. Is it reasonable to think a steak dinner with a salad, potato, vegetable and dessert would cost \$10 if purchased at a restaurant? NO. The charity must provide the donor with a good faith estimate of the goods or services the donor received.

The charity could obtain a menu or price list from a restaurant in their area that would provide a similar dining experience. If the caterer provided a discount, they could ask the caterer their typical price – the charity can factor in cost or the value of venue etc., in determining the fair value of what the donor received in return.

Best practices are to have the charity's development, marketing and accounting areas working together in planning and running its charity's gala.

Charity Auctions

Charities often decide to have a silent and a voice auction at the gala dinner event. The charity solicits and receives non-cash items for the auction. Acknowledgements or receipts should always be provided to the donor for donations including non-cash or in-kind contribution. It is the responsibility of the donor (NOT the charity) to determine the value of a non-cash contribution for purposes of their income tax returns. DO NOT provide the donor a value for their donated item.

The charity's acknowledgement should include the charity's name/address, employer identification number, a description of the item donated, and the date of the donation. The acknowledgment should NOT include the item's value. The acknowledgement should also include one of these statements:

- No good or services were provided in return of the contribution OR
- A description of the item and good faith estimate of the value of any goods and services provided in return for the contribution (NOT the item's value)

After the non-cash item is received, the charity internally places a value on the item. The charity should include language notifying attendees that only amounts paid in excess of the fair market value may be deductible as a charitable contribution. For example:

The excess amount above an item's fair market value that a winning bidder pays to receive the item typically is tax deductible.

Determining the value of the items for the auction can be a tough job, and it's often difficult to know where to start. The charity may use any reasonable method to estimate the fair market value as long as the charity applies the method in good faith.

If the donated item is commercially available, the charity can use the purchase price of the item as its value. If the item is not commercially available, the charity may determine the fair market value by using comparable goods or services.