

Part I – Donor Acknowledgment for Cash Donations

Donations are vital to many not-for-profit organizations. Organizations account for contributions in many different ways and there is often confusion as to what is required when reporting to and acknowledging donors.

If expecting a deduction for tax purposes, all donors are required to obtain a written, contemporaneous donor receipt issued from the recipient organization when making a single contribution of \$250 or more. Receipts can be issued in either paper or electronic format so long as they are printable. Without a proper receipt, a donor may not deduct the value of the contribution against their taxable income for the year. The acknowledgment can take the form of a thank you letter, or something that looks more like an official receipt. However, the following information is required to be included in the donor receipt:

- Legal name of the exempt organization donee;
- Name of the donor;
- Date of the contribution;
- Detailed description of the property donated;
- Amount of the contribution, but only if cash was received;
- A statement regarding whether or not any goods or services were provided in exchange for the contribution; and
- If applicable, the value of the goods or services provided by the exempt organization to the donor.

While charitable organizations are not subject to IRS penalties for failing to issue donor receipts, there is a potential “donor relations” penalty if a donor’s tax deduction is disallowed due to inadequate documentation of a charitable gift. The donor may not make future contributions and almost certainly will tell friends and associates that the charity’s lack of documentation cost them a tax deduction.

A donor may use a cancelled check or credit card receipt for cash donations under the \$250 threshold. However, most charities, as a best practice in donor relations, issue letters with the information above regardless of the size of the contribution. There is potential for IRS assessment of penalties on the charity if the charity fails to give donors a good faith estimate of the value of any goods and services provided in exchange for a donation in excess of \$75.

Determining the date of contribution to report on a donor receipt can be difficult. Ordinarily, a contribution is considered “made” at the time when delivery occurs. This is the time when a donor gives up control of the funds and gives the charity the ability to access them.

For a donor who mails a check to a charity that properly clears the bank in due course, the contribution date is the postmark date on the transmittal envelope. The postmark date of the donation becomes critical around the beginning and end of a calendar year. A charity may receive a check with a December date but a postmark date of January. Although the donor may have intended for the contribution to qualify for a deduction in the preceding tax year, the donation qualifies for the tax year beginning in January instead, due to the postmark date. Before issuing a donor receipt, the charity should call the donor and explain the rule and the reason why they must use the date on the envelope on the donor receipt. Many donor relation problems can be solved before they arise with good personal communication.

For credit card donations, the date of the contribution is the date on which the charge has been made, not the date on which the donor actually pays the credit card bill. There is some uncertainty as to what a charity should do when it receives a request to charge a credit card prior to the calendar year end but does not do so until early January. The IRS has not provided any guidance on this situation. However, applying the logic that a donation is considered “made” at the time when the donor gives the charity the ability to access the funds, it seems reasonable that the contribution date should be the date on which the donor authorizes the transaction. This would be similar to a charity receiving a donation via check prior to year end but not depositing the check until the next calendar year.

In our next newsletter we will address written disclosure requirements for donations where a donor receives a benefit, often referred to as “quid pro quo,” in exchange for a contribution. One of the most common occurrences of quid pro quo donations is at fundraising events. Failure to provide adequate disclosure can result in IRS penalties as well as donor relation penalties. The article will cover the situations where this disclosure is required as well as exceptions to the rule.

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