

Audit Technique Guide – Fundraising Activities

Introduction

This guide addresses examining tax exempt organization fundraising and provides:

- Background information
- Audit guidelines
- Audit techniques
- Audit procedures

This guide is not all-inclusive and doesn't intend to limit agents to identifying issues or using techniques not listed in this guide.

For information on fundraising issues involving political organizations, see the Audit Technique Guide for Political Organizations. For information on fundraising issues involving gaming activities, see the Audit Technique Guide for Organizations Conducting Gaming Activities.

This manual is organized into five sections:

- Background information
- Activities (professional fundraisers, fundraising events, internet fundraising)
- Records (solicitations, disclosures, cash contributions, non-cash contributions)
- Reporting (Form 990-EZ, Form 990: Core Return, Schedule G, Schedule M, Form 990-PF, Form 990-T)
- Audit procedures (pre-audit, field/OCEP, penalty considerations, case closing)

Background

Most, if not all, tax exempt organizations need money. Many exempt purposes can only be achieved via the application of money. Thus, large numbers of organizations devote significant resources to acquiring money. These organizations use various methods to obtain funds, ranging from selling a product or service, conducting a fundraising event, to just asking for money.

Traditional methods of obtaining funds include soliciting donors via the mail, phone calls, newspapers, radio, television, and now via the Internet. Organizations have become creative over the years, conducting activities and events, such as the sales of foodstuffs, car washes, raffles, casino nights, auctions, and pledge drives, evolving towards more sophisticated ways to fundraise, such as targeting solicitations, using patronage levels, crowd-funding, and tax planning, such as conservation easements, lending arrangements, and charitable gift annuities.

Fundraising activities generate tax issue concerns, such as:

- Is the contribution deductible?
- How much of the contribution is deductible?
- What is the value of the contribution?
- Is the donation a valid contribution?
- Does the fundraising activity trigger a tax liability?

- If tax is owed, how do I compute the tax?
- How does the information get reported?

See these helpful publications for taxpayers who are both donors and donees:

- [Pub. 1771](#), Charitable Contributions - Substantiation and Disclosure Requirements
- [Pub. 526](#), Charitable Contributions
- [Pub. 561](#), Determining the Value of Donated Property
- [Pub. 4302](#), A Charity's Guide to Vehicle Donations
- [Pub. 4303](#), A Donor's Guide to Vehicle Donations

Professional Fundraisers

Professional fundraisers are people and companies that tax exempt entities hire to raise funds. Some fundraisers work as employees for the organizations for which they raise funds. Other fundraisers work as consultants, many independently contracted for specific fundraising activities.

Fundraising employees typically receive salaries; however, some may receive a percentage of the gross receipts. In either situation, consider reviewing the contracts to determine if excess benefit transactions exist. Be aware that most organizations will lump the fundraising employee(s)' compensation with the rest of the organization's staff when they report expenses on the Forms 990-EZ, 990-PF, and 990. Therefore, you may not necessarily find a separate expense listing for the fundraising employee.

Those working on behalf of organizations as external consultants or fundraisers must file reports with the various state charity regulators. Many of these entities and/or individuals receive a percentage of the proceeds. Some receive a percentage in addition to a set base amount of compensation. As these arrangements, can lead to abuse, consider reviewing all contracts with fundraising firms to determine the extent of private benefits. For a list of state charity regulators, see the www.nasconet.org website.

If an organization employs/contracts a professional fundraiser's services, consider reviewing any reports filed with the state(s). Depending on the type of organization, you may need to also check the Federal Election Commission, state lobbyist and political campaign disclosure websites, as well as the www.irs.gov site for political and legislative fundraising records. See Audit Technique Guide for IRC Section 527 Political Organizations.

Fundraising Events

On any given day, you may encounter a fundraising activity. Whether purchasing a newspaper on a city corner, stopping to buy food at a table set up outside a grocery store, or dropping your spare change into a container at a cash register, chances are you've taken part in a fundraising transaction.

Fundraising activities are undertaken to induce potential donors to contribute money, securities, services, materials, facilities, other assets, or time. Fundraising events include:

- dinners and dances
- door-to-door sales of merchandise
- concerts
- carnivals
- sports events
- auctions
- casino nights (in which participants can play casino-style games but the only prizes or auction items given are non-cash items that were donated to the organization)
- similar events not regularly carried on conducted for the primary purpose of raising funds.

Activities to support these events can include:

- Publicizing an event.
- Maintaining donor mailing lists.
- Preparing and distributing fundraising manuals, instructions, and other materials.
- Professional fundraising services.
- Conducting other activities involved with soliciting contributions from individuals, foundations, governments, and others.

Fundraising events don't include:

- The conduct of a trade or business that is regularly carried on
- Activities substantially related to the accomplishment of the organization's exempt purposes (other than by raising funds)
- Solicitation campaigns that generate only contributions, which may involve goods or services from the organization of only nominal or token value. (See "Solicitations" below.)
- Sweepstakes, lotteries, or raffles in which the names of contributors or other respondents are entered in a drawing for prizes of only nominal value.
- Gaming

Organizations are responsible for recording all fundraising transactions and reporting on their activities. The greater the amount of gross receipts, the greater the reporting requirements. The level of detail in the record keeping is up to the individual organization; however, it must keep certain records to satisfy various reporting needs. Organizations that don't keep appropriate records may be subject to inadequate records notices or revocation. See [IRM 4.75.13](#), Issue Development.

Internet Fundraising

With the advent of high-speed internet access and secure communications (indicated by https:// at the start of a web address), using the internet to raise funds is more practical than ever before. Those wishing to donate need only have a credit card, debit card, or checking account information on hand to make a donation in

minutes. Gone is the need for employees or volunteers to take down a donor's information.

Numerous for-profit companies provide services for organizations that want to set up an online fundraising presence. These companies design the websites, process the transactions, and offer back end processing. Organizations can also choose other fundraising methods, such as online auctions, crowd funding, and emails to current donors.

Online fundraising can capture additional information in easily accessible formats that previously took voluminous data entries to get. If an organization obtains funds via online methods, the organization will often have access to databases of donor records. Organizations can now generate lists of donors, regardless of the amount of the donation, in minutes. This information can help you analyze the Form 990 Schedule B compliance and identify disqualified persons.

Thinking points for pre-audit planning and audit include:

- Ask about the software used to track donations.
- Look at the types of records kept using such software.
- Review the donor lists kept for Form 990 Schedule B purposes.
- Check the organization's website.
- Examine contracts with internet service vendors.
- Determine the methods of payment.
- Verify the filing of Forms 1099-K, Payment Card and Third Party Network Transaction.
- Obtain transactional information from the vendors.

Solicitations

One of the most common methods of fundraising is the old fashioned solicitation. Many organizations won't receive funds unless they ask potential donors to contribute. Normally, we don't regulate the method or content of solicitations. There are a few exceptions:

- All tax-exempt organizations including political organizations are subject to specific disclosure rules under IRC Section 6711. (See below.)
- Generally, all tax-exempt organizations ineligible to receive tax deductible charitable contributions (including political organizations) must inform donors of the non-deductibility of contributions under IRC Section 6113.

If any exempt organization or political organization offers to sell, or solicits money for, specific information or a routine service that is available free from the federal government, the organization must make an express statement at the time of solicitation about the free service. An organization that intentionally disregards this requirement is subject to a penalty. (IRC Section 6711)

Many states have laws regulating the solicitation of funds for charitable purposes. These laws often require registering with a state agency before soliciting the state's residents for contributions. Many states provide exemptions from registering certain categories of organizations. In addition, organizations may be required to file

periodic financial reports. State laws may impose additional requirements on fundraising activity involving paid solicitors and fundraising counsel.

Disclosures

Donors of charitable contributions are subject to recordkeeping and substantiation rules. An organization that doesn't acknowledge a contribution doesn't incur a penalty. However, donors may need a written acknowledgment from the charity in order to take a charitable deduction on their tax return.

For any contribution of money, a donor must have a bank record or written communication from a charity in hand before claiming a charitable contribution on an income tax return. If a donor gives \$250 or more in a contribution, the donor must have a written acknowledgment from the organization to support the deduction. IRC Section 170(f)(8) and IRC Section 170(f)(17). The written acknowledgment from the donee must show:

- The name of the donee organization
- The amount of the contribution
- For non-cash contributions, a description of the donated property (not the value) and must also contain any one of the following:
 - A statement that no goods or services were provided in return for the contribution.
 - A description and good faith estimate of the value of goods and services provided in return for the contribution.
 - A statement that goods or services provided in return for the contribution were intangible religious benefits.

With respect to "quid pro quo contributions," IRC Section 170(c) organizations in general must provide a written disclosure statement to a donor who makes a payment exceeding \$75. (IRC Section 6115) Failure to make a quid pro quo written disclosure (whether in advance or as an acknowledgment) can result in a penalty under IRC Section 6714.

Nondeductible Contributions

Organizations ineligible to receive deductible contributions must disclose in all of their fundraising solicitations that gifts to them aren't tax deductible. (IRC Section 6113) The following organizations, among others, must comply with the requirements:

- Social welfare organizations, civic leagues, homeowners associations (IRC Section 501(c)(4))
- Labor organizations (IRC Section 501(c)(5))
- Trade associations, business leagues, chambers of commerce (IRC Section 501(c)(6))
- Social clubs (IRC Section 501(c)(7))
- Fraternal organizations (IRC Section 501(c)(8) and IRC 501(c)(10)), unless described in IRC Section 170(c)(4)
- Political organizations (IRC Section 527(e))
- Any other tax-exempt organization not eligible to receive contributions that are tax deductible

- Any organization that was subject to the disclosure requirement during the five-year period immediately preceding the fundraising solicitation
- Any organization that is a successor to an organization that was subject to the disclosure requirement during the five-year period preceding the solicitation.

Foreign organizations also aren't qualified to receive charitable contributions, other than:

- A U.S. organization that transfers funds to a charitable foreign organization if the U.S. organization controls the use of the funds or if the foreign organization is only an administrative arm of the U.S. organization.
- Certain Canadian, Israeli, or Mexican charitable organizations, under income tax treaties with those countries.

A fundraising solicitation is any solicitation for a contribution or gift made in written or printed form, by mail, internet, television, radio, or by telephone.

Examples of situations excluded from this disclosure requirement include billing:

- Advertisers in an organization's publications.
- Members and nonmembers for food and beverages at a social club.
- Attendees of a conference conducted by an organization.
- Individuals for insurance premiums where the organization sponsors or operates an insurance program.
- Mandatory payments for members of a homeowners association for fire and police protection.
- Payments for members of a voluntary employees' beneficiary association. IRC Section 501(c)(9).

IRC Section 6113 doesn't apply to fundraising solicitations of organizations that:

- Are described in IRC Section 170(c).
- Have less than \$100,000 in annual gross receipts (Form 990-N filers).
- Solicit only tax exempt organizations.
- In the case of letters and telephone calls, solicits no more than 10 persons during the calendar year.

Treat a group of exempt organizations as one organization where appropriate. IRC Section 6113(b)(2)(B). Doing so prevents the use of multiple organizations to try to circumvent the disclosure requirements by keeping annual gross receipts per entity below the \$100,000 limitation.

Certain organizations must tell their members the portion of dues that aren't deductible as they relate to the organization's lobbying and political expenses. IRC Section 6033(e)(1). See also [Rev. Proc. 98-19](#). This can also apply to fundraising events held for lobbying purposes for such organizations. These organizations are:

- 501(c)(4) Social welfare organizations (excludes veteran organizations)
- 501(c)(5) Labor agricultural and horticultural organizations
- 501(c)(6) Business Leagues

Safe Harbor Formats

Notice 88-120 gives safe harbor guidelines of acceptable formats to disclose non-deductibility of contributions in solicitations made via print media, phone, TV, or radio. If an organization doesn't comply with the guidelines, use a facts and circumstances test to determine compliance with IRC Section 6113.

Solicitations must include "an express statement (in a conspicuous and easily recognizable format) that contributions or gifts to such organization are not deductible as charitable contributions for federal income tax purposes."

Printed solicitations (in mailed letters, leaflets, advertisements in newspapers, magazines, or other print mediums (including web pages)) must meet **four** requirements:

- The solicitation includes whichever of the following statements the organization deems appropriate:
 - "Contributions or gifts to [name of organization] are not deductible as charitable contributions for federal income tax purposes."
 - "Contributions or gifts to [name of organization] are not tax deductible."
 - "Contributions or gifts to [name of organization] are not tax deductible as charitable contributions."
- The statement is in at least the same size type as the primary message stated in the body of the letter, leaflet, or ad.
- The statement is included on the message side of any card or tear off section that the contributor returns with the contribution.
- Either the statement is the first sentence in a paragraph or itself constitutes a paragraph.

Telephone solicitations must meet **three** requirements:

- The solicitation includes whichever of the following statements the organization deems appropriate:
 - "Contributions or gifts to [name of organization] are not deductible as charitable contributions for federal income tax purposes."
 - "Contributions or gifts to [name of organization] are not tax deductible."
 - "Contributions or gifts to [name of organization] are not tax deductible as charitable contributions."
- The telephone solicitor must make the statement in close proximity to the request for contributions during the same telephone call.
- Written confirmations or billings sent to a person who pledges a contribution during the solicitation must comply with the requirements stated above.

Television solicitations must meet **two** requirements:

- The solicitation includes whichever of the following statements the organization deems appropriate:
 - Contributions or gifts to [name of organization] are not deductible as charitable contributions for federal income tax purposes."
 - "Contributions or gifts to [name of organization] are not tax deductible."

- “Contributions or gifts to [name of organization] are not tax deductible as charitable contributions.”
- Audible statements must be in close proximity to the request for contributions. Written statements displayed on the television screen must be in large, easily readable type, appearing for at least five seconds.

Radio solicitations must meet **two** requirements:

- The solicitation includes whichever of the following statements the organization deems appropriate:
 - Contributions or gifts to [name of organization] are not deductible as charitable contributions for federal income tax purposes.”
 - “Contributions or gifts to [name of organization] are not tax deductible.”
 - “Contributions or gifts to [name of organization] are not tax deductible as charitable contributions.”
- The statement is made in close proximity to the request for contributions during the same radio solicitation announcement.

Quid Pro Quo Contributions

A “quid pro quo contribution” is a payment that is part contribution and part payment for goods or services (benefits) received from the IRC Section 170(c) organization. If a quid pro quo contribution (the payment) exceeds \$75, the Section 170(c) organization must issue to the donor a timely written disclosure statement. (IRC Section 6115)

Note: No written disclosure statement is required if there is no intent to donate as part of a transaction, such as in a typical museum gift shop sale. An outright sale is not a quid pro quo contribution.

Note: The written disclosure requirement doesn’t apply to IRC Section 170(c)(1) governmental entities.

Exceptions to the written disclosure requirement for quid pro quo contributions are as follows:

- The token exception
- The membership benefits exception
- The intangible religious benefits exception

The written disclosure statement is a notice that discloses to donors that they can only deduct the amount of the payment that is more than the value of the goods or services they received. The statement must also give a good faith estimate of the goods or services’ value. The organization can give the donor the statement either when it solicits or when it receives the payment from the donor. The organization must write the statement in a manner that will grab the donor’s attention.

Note: A disclosure in small print within a larger document might not meet this requirement.

Example: A donor gives a charitable organization \$100 in exchange for a concert ticket with a fair market value of \$40. In this example, the donor’s tax deduction

may not exceed \$60. Because the donor's payment (quid pro quo contribution) exceeds \$75, the charitable organization must furnish a written disclosure statement to the donor, even though the deductible amount doesn't exceed \$75.

The organization may use any reasonable method to make an estimate of the value of goods and services, provided it applies the method in good faith. If the organization fails to apply the method in good faith, the organization doesn't meet the requirements of IRC Section 6115. See Treas. Regs. 1.170A-1 and 1.6115-1 for more information.

[Rev. Rul. 67-246, 1967-2 C.B. 104](#), as amplified by [Rev. Proc. 90-12, 1990-1 C.B. 471](#), describes rules on the deductibility of payments to charities for fundraising events and gives examples showing how the rules apply. To avoid misleading donors, any charitable organization conducting this type of fundraising should:

- Determine in advance the portion of the payment attributable to the purchase of admission or other privilege, and the portion solicited as a gift.
- Clearly designate these separate amounts in any solicitation.
- Clearly designate these separate amounts on any ticket, receipt or other evidence of payment furnished to the contributor.

These procedures apply to those situations where organizations hold fund raising events, such as auctions, galas, banquets, bazaars, tournaments, and similar events.

For information on the penalty for failure to make written disclosure for quid pro quo contributions, see below.

Token Exception

Quid pro quo disclosures aren't required when donor benefits are insubstantial in value. Treas. Reg. 1.6115-1(b).

Qualified organizations must determine if goods or services provided to contributors are insubstantial in value. Find initial values in IRC Section 513(h) and conditions in [Rev. Proc. 90-12, 1990-1 C.B. 471](#), as amplified by [Rev. Proc. 92-49, 1992-1 C.B. 987](#). Items are insubstantial in value if they meet at least one of three conditions:

- The fair market value of all benefits to contributors doesn't exceed the lesser of \$50 (indexed for inflation) or 2 percent of the donation.
- The total cost of token items provided to a donor doesn't exceed \$5 (indexed for inflation). The minimum donation must be \$25 (indexed for inflation). Token items include bookmarks, calendars, key chains, mugs, posters, t-shirts, etc., bearing the organization's name or logo.
- The organization mails or distributes low-cost token items for free. The donor neither orders, requests nor expressly consents to the mailing, and the organizations informs the donor that the item(s) are theirs to keep.

The token exception amounts described above change annually. Search www.irs.gov, CCH, Lexis, or Westlaw using "IRC Section 513(h)" to find the indexed amounts for a particular year.

Membership Exception

Membership fees or dues paid to a qualified IRC Section 170(c) organization may be deductible. However, donors can deduct only the amount that is more than the value of the benefits they received. Dues, fees, or assessments paid to country clubs and other social organizations aren't deductible. They are not qualified organizations.

Donors and organizations can disregard certain membership benefits if donors get them in return for an annual payment of \$75 or less.

Disregarded benefits include any rights or privileges, other than those discussed under Athletic Events below, that donors can use frequently while they are members, such as:

- Free or discounted admission to the organization's facilities or events
- Free or discounted parking
- Preferred access to goods or services
- Discounts on the purchase of goods and services
- Admission to events open only to members if the organization reasonably projects that the cost per person (excluding any allocated overhead) is not more than \$5 (indexed annually).

Many organizations have donor recognition levels in excess of the \$75 annual payment. These organizations must determine the value of the benefits component of the quid-pro-quo contribution. The \$75 amount is not indexed for inflation.

Intangible Religious Benefits Exception

Donor acknowledgments don't need to describe or value intangible religious benefits. To meet this exception, the following conditions must be met:

- A religious organization provides the benefits.
- The only benefits provided are intangible or de minimis.

Example: Admission to a religious ceremony (intangible) or the wine used in that ceremony (de minimis tangible). The benefits aren't usually sold commercially (outside of the gift context).

The acknowledgment may simply state that the donor received intangible religious benefits. Intangible religious benefits don't include education leading to a recognized degree, travel services, and consumer goods.

Athletic Events

Donors who make a payment to, or for the benefit of, a college or university and, as a result, receive the right to buy tickets to an athletic event in the athletic stadium of the college or university, can deduct 80 percent of the payment as a charitable contribution. IRC Section 170(l).

If any part of the donor's payment is for tickets (rather than the right to buy tickets), that part is not deductible. Subtract the price of the tickets from the donor's payment. The donor can deduct 80 percent of the remaining amount as a charitable contribution.

Example 1: The donor pays \$300 a year for membership in a university's athletic scholarship program. The only benefit of membership is that the donor has the right to buy one season ticket for a seat in a designated area of the stadium at the university's home football games. The donor can deduct \$240 (80 percent of \$300) as a charitable contribution.

Example 2: The facts are the same as in Example 1 except the \$300 payment includes the purchase of one season ticket for the stated ticket price of \$120. The donor must subtract the usual price of a ticket (\$120) from the \$300 payment. The result is \$180. The donor's deductible charitable contribution is \$144 (80 percent of \$180).

Cash Donations

Cash contributions are contributions of money received in the form of cash, checks, money orders, credit card charges, wire transfers, and other transfers and deposits to the organization's cash account.

Public charities and private foundations must keep supporting documents that show the amounts and sources of gross receipts. IRC Section 6001. Documents that show gross receipts include:

- Donor correspondence
- Pledge documents
- Cash register tapes
- Bank deposit slips
- Receipt books
- Merchant account statements (VISA, Master Card, Discover, American Express, PayPal, etc.)
- Forms 1099-K, Payment Card and Third Party Network Transaction

Organizations need to track the names of each contributor and amounts received from them. Depending on the amounts received, the organization may be subject to a Schedule B (Form 990, 990-EZ, or 990-PF) filing requirement. The organizations complete the full schedule if:

- A contributor gives more than \$5,000 (money and/or property) during the year.
- A contributor gives to a IRC Section 509(a)(1) and Section 170(b)(1)(A)(vi) charity more than the 2 percent of the year's contributions, if greater than \$5,000.
- A contributor to a social club or fraternal organization that gave more than \$1,000 for IRC Section 501(c)(3) purposes.

Social clubs and fraternal organizations complete the first page of the schedule (at a minimum) if they receive donations for IRC Section 501(c)(3) purposes.

Non-Cash Donations

Non-cash contributions are contributions of property, tangible or intangible, other than money. Non-cash contributions include, but are not limited to:

- Stocks, bonds, and other securities
- Real estate
- Works of art; stamps, coins, and other collectibles`
- Clothing and household goods
- Vehicles, boats, and airplanes
- Inventories of food, medical equipment or supplies, books, or seeds
- Intellectual property, including patents, trademarks, copyrights, and trade secrets
- Donated items that are sold immediately after donation, such as publicly traded stock or used cars
- Items donated for sale at a charity auction

Non-cash contributions don't include:

- Volunteer services
- The donated use of materials, facilities, or equipment

Organizations may record the value of a non-cash contribution considering certain factors, such as:

- Was the purchase or sale of the property reasonably close to the date of contribution?
- Was any increase or decrease in value, as compared to your cost, at a reasonable rate?
- Do the terms of purchase or sale limit what can be done with the property?
- Was there an arm's-length offer to buy the property close to the valuation date?
- How similar is the property sold to the property donated?
- How close is the date of sale to the valuation date?
- Was the sale at arm's-length?
- What was the condition of the market at the time of the sale?
- What would it cost to replace the donated property?
- Is there a reasonable relationship between replacement cost and FMV?
- Is the supply of the donated property more or less than the demand for it?
- With regard to valuated property, was the expert knowledgeable and competent?
- Is the opinion thorough and supported by facts and experience?

Selling non-cash contributed items may trigger tax liabilities. The exclusion from an unrelated trade or business requires substantially all volunteer labor and donated merchandise. If an organization bundles or mixes contributed items with purchased items before selling them, it must determine the percentage of purchased items in the bundle/mix.

Example: A public charity operates a thrift store. The charity pays wages to the store staff. The charity receives donations of clothing and household goods that are sorted into piles of either trash or goods available for resale. The charity also

purchases jewelry, watches, underwear, and candy that it includes among the items for sale. The charity must track the number of items sold, and separately identify the items it purchased. If the annual sales of purchased items are more than insubstantial, then the charity is subject to unrelated business income tax on the sales.

Non-cash contributions may trigger a variety of reporting requirements. These include but aren't limited to:

- Schedule B (Form 990/990-EZ/990-PF), Schedule of Contributors
- Schedule M (Form 990), Noncash Contributions
- Schedule N (Form 990/990-EZ), Liquidation, Termination, Dissolution or Significant Disposition of Assets
- Form 8282, Donee Information Return
- Form 8283, Noncash Charitable Contributions
- Form 1098-C, Contributions of Motor Vehicles, Boats, and Airplanes
- Form 8899, Notice of Income from Donated Intellectual Property

For non-cash contributions to be tax deductible, a donor must maintain a receipt from the recipient organization containing:

- The name of the charitable organization.
- The date and location of the charitable contribution.
- A reasonably detailed description of the property

A letter or other written communication from the charitable organization acknowledging receipt of the contribution and containing the information above serves as a receipt. Treas. Reg. 1.170A-13(b).

Non-cash contributions larger than \$5,000, made to an organization eligible to receive tax deductible contributions, are tax deductible if:

- The donee organization supplies the donor with a contemporaneous written acknowledgement of the contribution.
- The donor obtains a qualified written appraisal of the property.
- The donee organization signs the appraisal summary acknowledging receipt of the property and awareness of the subsequent filing requirement, in the event they dispose of the asset within two years.

See Treas. Regs. 1.170A-13(c) and (f).

No penalties are imposed on the organization for failure to provide an acknowledgement. However, the donor is penalized, by losing the charitable deduction if the donor doesn't obtain the statement. A donor that loses a deduction may be reluctant to make a future contribution to that organization. Therefore, charities generally have procedures in place to issue an acknowledgment for non-cash contributions.

Donee organizations should sign the appraisal summary on Form 8283 to acknowledge their receipt of a non-cash contribution on a specified date. In signing, the organization neither agrees nor concurs with the donor's appraised value.

If a charitable organization sells, exchanges, or otherwise disposes of charitable deduction property within three years after receiving it, the organization must file an information return Form 8282 that contains the following information:

- The name, address, and Taxpayer Identification Number (TIN) of the donor.
- A description of the property.
- The date of the contribution.
- A description of the donee's use of the property and whether the use of the property was related to the donee's exempt purpose
- The amount received on the disposition.
- The date of the disposition.

The organization must provide a copy of Form 8282 to the donor. Not filing Form 8282 when required may trigger penalties for failing to file a correct information return. IRC Sections 6050L(a), 6050L(c) and IRC Section 6721.

Vehicle Donations

If a charity operates a vehicle donation program in a manner that improperly benefits private parties, the charity's exemption may be adversely affected. In most situations, public charities operate or authorize the operation of vehicle donation programs. Donors may deduct the contribution of their used vehicles to charities. IRC Section 170(f)(12). Some of the major issues involved in these donations are:

- The extent to which a charity is involved in a vehicle donation operation.
- The planned use of the donated vehicle.
- The amount that a donor may report as a deduction on their tax return.
- The presence or lack thereof of a contemporaneous written acknowledgment.

Proceeds from the sales of the donated vehicles must go to exclusively funding charitable programs. If a charity meets this requirement, there's no adverse impact to its tax-exempt status if it does any of the following:

- Sells the donated vehicles
- Regularly uses the vehicles for a significant period to conduct exempt purpose activities
- Sells the vehicle after it makes a material improvement to the vehicle
- Distributes the vehicles at a price significantly below fair market value to needy individuals

Note: Distribution to needy individuals must be in direct furtherance of the charitable purpose of relieving the poor, distressed or underprivileged in need of a means of transportation.

A charity may hire a private, for-profit entity as an agent to operate its vehicle donation program. The charity and the for-profit entity must establish an agency relationship, valid under state law. To establish an agency relationship, the parties agree that:

- The for-profit entity will act on the charity's behalf.
- The for-profit entity's activities covered by the agreement are subject to the charity's oversight.

When a charity enters into an agency relationship with a for-profit entity, the charity should actively monitor program operations and:

- Have the right to review all contracts.
- Establish rules of conduct.
- Choose or change program operators.
- Approve of or change all advertising.
- Examine the program's books and records.

A charity might grant a for-profit entity the right to use the charity's name for soliciting used vehicle donations. The charity receives either a flat fee or a percentage of the proceeds from the sale of the vehicles to support its charitable programs. The charity has no control over the for-profit entity's activities. In this type of situation, the charity hasn't established an agency relationship with the for-profit entity valid under state law. This program is not the charity's program. When there's no agency relationship, the donors' contributions (transfers) are to the for-profit entity, not to the charity.

A charity can't license its right to receive tax-deductible contributions. If there's no valid agency relationship with the for-profit entity, neither the for-profit entity nor the charity may state that contributions are deductible.

When a donor donates a vehicle, claiming a value of more than \$250 (but less than \$500), the charity must provide a contemporaneous written acknowledgment. The acknowledgment must include:

- The name of the charity.
- A description (but not value) of the vehicle.
- A quid pro quo written disclosure if applicable. (See above.)

Donors claiming less than \$500 in vehicle value must receive the acknowledgments by the earlier of:

- The donor's Form 1040/A/EZ return filing date for the year of the contribution.
- The due date (including extensions) of the return.

If a donor claims a value of more than \$500, the acknowledgment must include:

- The donor's name and taxpayer identification number.
- The vehicle identification number.
- The date of the contribution.
- A quid pro quo disclosure.
- Information on the charity's use of or plans for the vehicle.

A charity may use Form 1098-C, Contributions of Motor Vehicles, Boats, and Airplanes, as the acknowledgment or provide its own statement that includes the information described above. A charity can provide the donor a paper or electronic copy of the acknowledgment, such as an e-mail addressed to the donor. Using Form 1098-C doesn't eliminate the need to complete Form 8282 or Form 8283.

Charity Sells the Vehicle

If the charity sells the vehicle for more than \$500, the contemporaneous written acknowledgment must also include:

- A statement certifying the sale of the vehicle in an arm's length transaction between unrelated parties.
- The vehicle sale date.
- The sale's gross proceeds.
- A statement that the donor's deduction may not exceed the gross proceeds from the sale.

The charity must provide the acknowledgment to the donor within 30 days from the date of the vehicle's sale.

If the charity sells the vehicle for less than \$500, apply the written acknowledgment rules described above.

Charity Intends a Significant Intervening Use of the Vehicle

If the charity intends to make a significant intervening use of the vehicle, the contemporaneous written acknowledgment must also include:

- A statement certifying that the charity intends to make a significant intervening use of the donated vehicle.
- A detailed statement of the intended use.
- A detailed statement of the duration of that use.
- A certification that the charity won't sell the vehicle before completion of the use.

The acknowledgment is due within 30 days from the date of the contribution.

A significant intervening use occurs when the charity actually considerably uses the vehicle to substantially further its regularly conducted activities.

There is no significant intervening use if the charity's use is incidental or not intended at the time of the contribution.

Significant intervening use doesn't include use of the vehicle to provide training in general business skills, such as marketing and sales.

Whether a use qualifies as significant intervening use depends on its nature, extent, frequency, and duration.

Example: 1. 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 doesn't qualify as significant intervening use.

Example: 2. The facts are the same as in Example 1, except that the charity drives the van a total of 10,000 miles over a 1-year period to deliver meals to needy individuals. This use qualifies because it's significant and substantially furthers the charity's regularly conducted activity of delivering meals to needy individuals.

Charity Intends to Make a Material Improvement to the Vehicle

If the charity intends to make a material improvement to the vehicle, the contemporaneous written acknowledgment must also include:

- A statement that the charity intends to make a material improvement to the donated vehicle.
- A detailed description of the intended material improvement.
- A certification that the vehicle won't be sold before completion of the improvement.

The acknowledgment is due within 30 days after the contribution date.

A material improvement includes a major repair or improvement that results in a significant increase in the vehicle's value.

Example 1: A donor gives the organization a car that's not operating. The head gasket is blown, the alternator no longer carries a current, and one of the six cylinders is cracked, requiring replacement/rebuilding of the entire engine. The charity replaces the engine with one from another car, at a labor cost of \$1,800. The car's value significantly increased.

Example 2: The charity receives a donated gas/electric hybrid car with a dead battery. The car's value is \$500. With an operable battery, the car's value is \$4,500. Replacing the battery costs the charity \$2,200. This constitutes a significant increase in value.

Cleaning, minor repairs, and routine maintenance aren't material improvements.

A material improvement to the vehicle won't qualify if the donor funds the improvement via an additional payment.

Material improvements don't include:

- Application of paint or other types of finishes (such as rustproofing or wax).
- Removal of dents and scratches.
- Cleaning or repair of upholstery.
- Installation of theft deterrent devices.

Charity Intends to Give or Sell the Vehicle to a Needy Individual

Charities may have an exempt purpose of relieving the poor, distressed or underprivileged. Treas. Reg. 1.501(c)(3)-1(d)(2). The charity may give or sell the vehicle at a price significantly below fair market value to a member of a charitable class in need of a means of transportation. When this occurs, the acknowledgment must certify that the:

- Charity intends to give or sell the vehicle to a needy individual at a price significantly below fair market value.
- Gift or sale is in direct furtherance of the charity's exempt purpose.

Charities that sell the vehicles and then apply the proceeds to assisting needy individuals end up disqualifying the sales under this provision.

The sale of a donated vehicle at auction also doesn't qualify. See "Charity Sells the Vehicle," above.

The acknowledgment is due within 30 days after the contribution date.

Reporting Fundraising Activities on Form 990-EZ

Organizations required to file Form 990-EZ, Short Form Return of Organization Exempt From Income Tax, report contributions separately from fundraising receipts. Organizations report contributions on line 1. This line doesn't include:

- Grants that are payments for services.
- Donations of services or use of property.
- Net losses from uncollectible pledges.
- Refunds of contributions and service revenue.
- Reversal of grant expenses.

Organizations report on line 1 the gross amounts of contributions, gifts, grants, and bequests that the organization received as voluntary contributions. Any noncash contributions are valued at the time of the donation. Organizations also report any assets they received from another entity in the course of that entity's liquidation, dissolution, or termination.

Fundraising activities such as dinners, door-to-door sales of merchandise, carnivals, and bingo games can produce both contributions and revenue. Organizations report as a contribution, both on line 1 and on line 6b within the parentheses, amounts received in excess of the FMV (retail value) of the merchandise or services the organization furnished to the contributor. The gross amount raised through the events, less the contributions reported on line 1, is reported on line 6b. They report all fundraising expenses related to the contributions on lines 12 through 16.

Example: An organization holds a dinner, charging \$400 per person for the meal. The dinner has a retail value of \$160. A person who purchases a ticket is really purchasing the dinner for \$160 and making a contribution of \$240. The contribution of \$240, which is the difference between the buyer's payment and the retail value of the dinner, is reported on line 1 and again on line 6b within the parentheses. The revenue received (\$160 retail value of the dinner) is reported on line 6b. Expenses directly related to the dinner are reported on line 6c. Fundraising expenses relating to the contribution of \$240 are reported on lines 12 through 16.

On line 13, organizations report professional fundraising fees relating to the gross amounts of contributions collected in the charity's name by fundraisers.

If the sum of the contributions and event income from fundraising events exceeds \$15,000 for the year, the organization files Schedule G. (See "Reporting Fundraising Activities on Schedule G," below.)

As always, public charities must file Schedule A, and depending on the amounts received from contributors, Schedule B as well. (See "Reporting Fundraising Activities on Schedule A," and "Reporting Fundraising Activities on Schedule B," below.)

Form 990-EZ filers don't need to file Schedule M.

Reporting Fundraising Activities on Form 990

Reporting contributions on Form 990-EZ is a relatively simple matter, however, the Form 990, Return of Organization Exempt From Income Tax, requires further detail on reporting contributions and fundraising receipts. Form 990 filers report revenues in Part VIII, breaking down contributions into six categories.

Line	Source of contributions
1a	Federated campaigns (such as Combined Federal Campaign, United Way)
1b	Membership dues (contributions from the public rather than payments for benefits received or payments from affiliated organizations)
1c	Fundraising events
1d	Related organizations (parent, subsidiary, brother/sister, supporting/supported, sponsoring organization of a VEBA, contributing employer to
1e	Governmental grants (direct benefit to the public, indirect benefit to the government)
1f	All other sources including professional fundraisers, if not included on line 1c
1g	All non-cash contributions included in lines 1a through 1f. This amount is a subset of the above listed amounts and doesn't get added to the total

Organizations report income from fundraising events on lines 8a through 8c. As with the Form 990-EZ, the fundraising income reported excludes the contributions received, and subtracts the direct expenses of the events. The organizations report all other expenses, including payments to professional fundraisers, on Part IX.

All organizations must complete Parts IV and V. The following table lists the criteria, the question requiring an affirmative answer, and the related item for completion. Be aware that some responses may trigger penalty considerations.

If:	Answer yes to:	Complete:
A public charity	Part IV, line 1	Schedule A
Required to file Schedule B	Part IV, line 2	Schedule B
Conducting fundraising (and/or other activities) outside of the US, with \$10,000 or more in aggregate	Part IV, line 14b	Schedule F, Parts I and IV

If:	Answer yes to:	Complete:
Expending \$15,000 or more for professional fundraiser services. See Note 1 below.	Part IV, line 17	Schedule G, Part I
Receiving \$15,000 or more from fund- raising events (including contributions	Part IV, line 18	Schedule G, Part II
Receiving non-cash contributions valued in excess of \$25,000 (total value, not	Part IV, line 29	Schedule M
Receiving contributions of art, historical treasures, or other similar assets, or qualified	Part IV, line 30	Schedule M
Receiving unrelated business income from taxable fundraising activities of	Part V, line 3a	Form 990- T
Receiving solicited nondeductible contributions and over \$100,000 in gross	Part V, line 6a	Part V, line 6b
Receiving quid pro quo contributions in excess of \$75	Part V, line 7a	Part V, line 7b
Selling, exchanging, or disposing of contributed tangible personal property, subject to the Form 8282 filing	Part V, line 7c	Part V, line 7d Form 8282
Receiving qualified intellectual property	Part V, line 7g	Form 8899
Receiving contributed vehicles	Part V, line 7h	Form 1098-C
<p>Note: 1. The prompt in Part IV, question 17 concerns the amount of expenses reported on Part IX, column A, lines 6 and 11e. Some organizations may erroneously categorize the expenses as some other type of expense in order to avoid</p>		

If an organization's fundraising events are among the most significant activities, it should describe them in Part I, line 1. Fundraising activities not substantially related to the accomplishment of the organization's exempt purposes (other than by raising funds) shouldn't be described in Part III, line 4.

Reporting Fundraising Activities on Schedule A

All public charities must complete Schedule A, if filing Forms 990 or 990-EZ. Those filing Form 990-N (electronic postcard) don't file Schedule A.

When completing Schedule A, publicly supported organizations must segregate the revenues from fundraising activities and report them accordingly. The following table breaks down where to report the income based on the type of entity (for example, IRC 509(a)(1) and Section 170(b)(1)(A)(vi) organizations versus IRC Section 509(a)(2) organizations). Amounts are reported as gross unless otherwise indicated on the Schedule A.

Type of income	Part II	Part III
Contributions	Line 1	Line 1
Substantially related activities generating income	Line 12	Line 2
Unrelated fundraising activities with substantially all	Line 12	Line 3
Unrelated fundraising activities with substantially all	Line 12	Line 3
Unrelated fundraising activities for convenience of	Line 12	Line 3
Unrelated fundraising activities not regularly carried on, not otherwise excluded from unrelated business	Line 9	Line 11
Unrelated fundraising activities subject to tax on unrelated business income	Line 9	Line 10b -or- Line 11

Churches, schools, hospitals, and other entities recognized under IRC Section 509(a)(1) and Section 170(b)(1)(A)(i) through (v), and IRC Section 509(a)(3) organizations don't complete Parts II or III.

Reporting Fundraising Activities on Schedule B

Schedule B, Schedule of Contributors, provides contributor's names, addresses, method of contribution, and the amount of the contribution. Separate portions of the form are used for cash and non-cash contributions. Any Form 990, 990-EZ, or 990-PF filer may be required to file Schedule B.

Organizations need to track the names of and amounts received from each contributor. Depending on the amounts received, the organization may be subject to a filing requirement. The organizations complete the full schedule if:

- A contributor gives more than \$5,000 (money and/or property) during the year.
- A contributor gives to a IRC Section 509(a)(1) and Section 170(b)(1)(A)(vi) charity more than the 2 percent of the year's contributions, if greater than \$5,000.
- A contributor to a social club or fraternal organization that gives more than \$1,000 for IRC Section 501(c)(3) purposes.

Be aware that organizations have a safe harbor for determining when a donor crosses the \$5,000 threshold. If a donor separately and independently gives gifts of less than \$1,000, the organization doesn't have to count them. Treas. Reg. 1.6033-2(a)(2)(iii)(c). This safe harbor dates to the date of the regulation's adoption in 1971.

Caution: Even though an organization is permitted to ignore donors who give less than \$1,000 per gift for purposes of completing Schedule B, any evidence of collusion to avoid the reporting requirement may give rise to criminal and civil penalties. A donor who pledges to pay \$5,000 or more in a year via monthly (or more frequent) payments should be included on Schedule B due to the pledge putting the organization on notice of the expected total contribution amount. Or, a donor who gives \$999.99 a week via electronic transfer who isn't listed on Schedule B merits a discussion with the TE/GE Fraud Specialist. See [IRM 25.1.9](#), Tax Exempt and Government Entities (TE/GE).

Schedule B isn't subject to public disclosure. Organizations must file the form if they meet the filing requirements. An organization can only list a contributor as anonymous if they don't know the name of the contributor. Anonymous contributions can occur, typically during the passing of collection plates at church functions, the dropping of money into collection buckets during the holidays, or during fundraising events, such as bake sales and bazaars. Analyze any Schedule B that lists anonymous donors using the audit procedures described later.

Donors may request that the organization list them as anonymous in the organization's literature and the organization may comply with these requests. However, donors sometimes ask organizations to list them as anonymous in Schedule B, but the organizations must deny the requests. This applies to all contributions, regardless of whether the organization is a public charity or exempt under some other IRC 501(c) section.

Failure to list donors on Schedule B or erroneously listing them as anonymous on Schedule B (when otherwise identifiable) subjects the organization's managers to a penalty. All liable managers or other persons who don't comply with the requirement to furnish the information subject themselves to the IRC Section 6652(c)(1)(B) penalty. Failure to furnish the information after a written demand can also trigger the daily delinquency penalty of IRC Section 6652(c)(2)(B) on the managers. See [IRM 20.1.8.2.1](#), IRC Section 6652(c)(1) - Exempt Organization Returns and Related Penalty Provisions, for more details.

Reporting Fundraising Activities on Schedule G

Schedule G has three parts:

1. Part I discusses the fundraising activities of Form 990 filers.
2. Part II provides information about the fundraising events of Form 990 and Form 990-EZ filers.
3. Part III covers gaming activities.

In Part I, organizations indicate the type of fundraising activities they conducted. They may select multiple types. This section also discusses the use of professional

fundraisers. Question 2b captures information on the 10 highest paid individuals or entities (fundraisers) per agreements under which the organization compensates the fundraiser at least \$5,000. Compare the contractual arrangements to the information reported. If they don't match, there may be potential excessive private benefit involved.

Part II captures information about the two largest events and lists the totals from all other events. The amounts on column (d) lines 1 and 2 should match up to the amounts reported on Form 990-EZ line 6b and Form 990 Part VIII lines 1c and 8a. Amounts in line 10 should match amounts reported on Form 990-EZ line 6c and Form 990 Part VIII line 8b.

Amounts reported in Part II shouldn't be reported in other expense sections of Forms 990 or 990-EZ.

Be aware that fundraising events may trigger unrelated business income treatment. See IRM 7.27.5, Unrelated Trade or Business.

Reporting Fundraising Activities on Schedule M

When an organization answers yes to question 29 and 30 of Form 990 Part IV, it must complete Schedule M. This schedule catalogs the non-cash contributions given to an organization. The triggering factors are that the sum total value of the contributed items must exceed \$25,000, or the organization received contributions of art, historical treasures, or other similar assets, or qualified conservation contributions.

When completing the schedule, the organization indicates with a check mark the categories of listed items received. Except for donated clothing, household goods, books, and publications, the organization must identify how many of each type of item it received. The schedule captures the valuation reported on the Form 990 and the method of valuation for all classes of items received.

Pay attention to the answers on lines 30a through 32a. Line 30a indicates whether an organization has accepted a gift that the donor has placed a condition upon, requiring the holding of that gift for at least three years. Line 31a ("Does the organization have a gift acceptance policy that requires the review of any nonstandard contributions?") impacts the issue of good governance. If the organization works with another company processing donations, such as vehicles, they must check yes on line 32a and describe the relationship in Part II.

Be aware that if the organization is conducting an asset donation program, where the assets are, in turn, sold off, the organization may also need to file Schedule N, Liquidation, Termination, Dissolution or Significant Disposition of Assets, depending on the amount of assets sold.

Reporting Fundraising Activities on Form 990-PF

Fund-raising and contribution reporting is limited on Form 990-PF to a few lines on the return. Most of the return focuses on IRC Sections 4940 and 4942 liabilities, qualification as a private operating foundation under IRC Section 4942(j)(3) and

whether the foundation and/or individuals need to file Forms 4720. Of the schedules discussed above, Form 990-PF filers file only Schedule B.

The foundation checks the box on Part I line 2 to indicate that no Schedule B is attached. The foundation should only check this box if it didn't receive donations from any one donor that cumulatively adds up to \$5,000 or more for the year. See (See "Reporting Fundraising Activities on Schedule B," above.)

All contributions of cash and non-cash assets are reported on Part I line 1 in column (a). Contributions are excluded from the computation of net investment income and adjusted net income. The schedule referenced on line 1 is the Schedule B.

Fundraising activity income may be reported on either Part I line 10, line 11, or split between both lines. Part XVI-A captures the specific fundraising activity income.

The following tables from the Form 990-PF instructions explain how to reconcile Part XVI-A with Part I.

Amounts in Part XVI-A on line . . .	Correspond to amounts in Part I, column (a), line . . .
1a-g	11
2	11
3	3
4	4
5 and 6	5b (description column)
7	11
8	6
9	11 minus any special event expenses included on lines 13 through 23 of Part I, column (a)
10	10c
11 a-e	11

Reconciliation instructions:

Part XVI-A line 13

Minus Part I line 5b

Note: If Part I, line 5b, reflects a loss, add that amount here instead of subtracting.

Plus Part I line 1

Plus Part I line 5a

Plus expenses of special events deducted in computing Part XVI-A, line 9

Equals Part I line 12 column (a)

Be aware that a foundation may attempt to claim private operating foundation status, given enough public support, and may complete Part XIV. Other foundations may indicate in box F on page 1 that they are completing 60 month terminations of their foundation status in order to become public charities.

Reporting Fundraising Activities on Form 990-T

All organizations conducting fundraising activities must determine if they're subject to a Form 990-T filing requirement.

A fundraising activity may trigger unrelated business treatment if the activity is a regularly carried on trade or business not substantially related to the organization's exempt purposes. If you determine that an activity constitutes an unrelated trade or business, identify if any statutory exceptions exclude the activity from treatment as an unrelated business. See [Publication 598](#), Tax on Unrelated Business Income of Exempt Organizations for more information.

Most taxable fundraising income is reported on lines 1 through 3 of Form 990-T, however some amounts may be reported on lines 10, 11 and 12 depending on the facts and circumstances. Expenses that are exclusive to the fundraising activities may be deducted as direct expenses that are primary and proximate to the activities. The organization may allocate any indirect expenses incurred in the fundraising activity related to the activity.

Even though organizations may decide not to file the Form 990-T because they would report a loss after subtracting all of the allocated expenses, they're still required to file if there is more than \$1,000 of taxable gross income.

The following examples illustrate typical fundraising activities to analyze for unrelated business income:

Example 1: A parent teacher association holds an annual bake sale in its cafeteria. Parents donate all of the baked goods and volunteer to staff the sale. This activity does not trigger unrelated business income treatment: the activity is not regularly carried on, substantially all of the baked goods are donated, and substantially all of the labor is performed by volunteers.

Example 2: A local public television station conducts a quarterly pledge drive. In between segments of programs aired on the station, viewers watch presenters make pitches for donations to the station. Behind the presenters are a group of volunteers manning the phones to take pledges during the program. This activity is regularly carried on, constitutes a trade or business (payment for programming), and is not substantially related to the exempt purpose of the station. While the presenters are employees of the station, the volunteers taking the calls are not, and thus this activity is excluded from taxable treatment. As these activities typically involve products sent to donors in exchange for various levels of pledges, the station must provide appropriate quid pro quo notices.

Example 3: A private school holds an annual combined live and silent auction. The school holds the auction in a hotel ballroom, where the hotel caters the event for a set fee. All of the auctioned items are donated by students, parents, teachers, and members of the community. The school pays for an auctioneer and the auctioneer's staff services. This activity is not regularly carried on, and substantially all of the materials are donated, thus excluding this activity from taxable treatment.

Example 4: A booster club for a high school marching band holds a weekly car wash, charging \$10 per car washed. Parents and their marching band children wash the cars. The gas station that provides the water, soap, and location is paid \$25 a session for the use of the station's parking lot. Those who participate are allocated a percentage of the proceeds towards payment of their child's trips to various band competitions and parades. Families that don't participate are not underwritten for the trips. The activity is regularly carried on, constitutes a trade or business, and is not substantially related to the exempt purposes of the booster club. The activity is not excluded as families are compensated for their labor through the underwriting of their children's travel expenses, and none of the materials are donated. Not only is this activity subject to unrelated business taxable income treatment, the allocation of the proceeds in this manner jeopardizes the exempt status of the club.

Example 5: A social club devoted to the sport of paragliding holds an open house. Members of the public are invited to participate and pay a \$20 fee for several tandem jumps with club members off of a nearby hillside. As this is a social club, and the guests are paying their own way, this activity gives rise to unrelated taxable business income. See *Special Rules for Social Clubs, VEBA's and SUBS* in [Publication 598](#).

For further guidance and examples of taxable activities, see Pub. 598, Tax on Unrelated Business Income of Exempt Organizations.

Pre-Audit Procedures

- Use the following procedures in full scope audits, and in issue focused or limited scope audits where fundraising is the primary issue.
- Create a workpaper to document the pre-audit analysis of the fundraising activity. Note possible issues such as whether nondeductible disclosures, charitable solicitations, quid pro quo contributions, and other items discussed in this guide.
- If the organization is a public charity per IRC Section 501(c)(3) or 4947(a)(1), check for Schedule A. If present, obtain copies of the prior years' Forms 990 or 990-EZ via Online SEIN, Foundation Center, or Guidestar. Compare any historical amounts on the support schedules in Schedule A to the amounts actually reported on the prior years' Forms 990 or 990-EZ. Make a note on Form 5773, EO Workpaper Summary Continuation Sheet, to check the foundation status. If the support schedules in Parts II or III of Schedule A are completed, prepare an Excel workpaper to create your own analysis of the amounts that should be reported.
- **Note:** Schedule A is not necessarily reported using the same accounting method as prior years. If the organization used a different accounting method for prior years, it must restate those amounts in the current Schedule A using the current accounting method.
- If Schedule B is attached, compare the donation amounts to the contribution amounts reported on line 1 (Part I of Form 990-PF; Part I of Form 990-EZ; Part VIII of Form 990; Part II or III column (e) of Schedule A). Create a workpaper to document your analysis of Schedule B. Make a note of those contributions that are non-cash contributions. Ask on your initial information document (IDR) request for verification of the continued possession or disposition of the donated property. For field audits, note on the tour workpaper to ask about donated property.
- For cash amounts reported on Schedule B, ask for a copy of the check or other method of payment, if retained.
- Ask via the initial IDR for the list of all donors who gave \$1,000 or more for the year.
- Analyze any financial records the organization provided in response to the initial IDR, sent per [IRM 4.75.10](#), Exempt Organization Pre-Audit Procedures, before your initial meeting with the taxpayer. Prepare a sampling plan to identify specific categories of fundraising income and expenses for verification. Determine any minimum sampling thresholds. Identify specific transactions for tracing and vouching if the organization provided copies of ledgers.
- Modify the initial interview workpaper with questions developed from the analysis of the Forms 990-EZ/990/990-PF/990-T. Take note of any schedules that should be expected that aren't present (Schedules A, B, G, or M). Be prepared to ask questions to enhance your understanding of the organization's fundraising activities. Be prepared to ask about the organization's solicitations, disclosures, and required filings. Form 990-T
- Prepare a tour of facilities workpaper (for field audits). Add notes to check the method of operations, assets used in the activities, and the location where the activities are held. With respect to location, determine where in a facility an

activity is conducted, how much space is used in the activity, and the frequency of the activity.

Auditing Form 990-EZ

- Check Box H on page 1 to see if the Schedule B block is checked. If not checked, look for an attached Schedule B.
- Check the amount reported on Part I line 6b. If the amount is greater than \$15,000, check for the existence of Schedule G. If the schedule is present, compare the amount reported in Part II column (d) lines 3, 10, and 11 against the amounts reported in line 6 of Form 990-EZ. Note any discrepancies.
- Add to the pre-audit analysis workpaper notes about the events listed in Part II columns (a) and (b). Add to the initial interview questions about the events, with a focus on whether the events give rise to unrelated business taxable income.
- If Part I is completed, ask in your initial IDR for the contracts for each professional fundraiser. Verify whether the fundraiser is registered with the state charities division as a charitable solicitor. Compare the percentage of proceeds retained by the fundraiser as listed on Schedule G to any percentages listed with the state. Note any discrepancies.
- Prepare a sampling workpaper. On the workpaper note the amount of contributions, fundraising event income, and direct expenses reported on line 6. Request, books, journals or ledgers specific to the fundraising events.
- Review Part III and the Schedule O, if attached, for a discussion of any fundraising activities. Make notes in the pre-audit analysis workpaper about any large, unusual, or questionable items discussed in these sections.

Auditing Form 990

- In Part I lines 5 and 6, note the number of employees and volunteers. Also, note the amount of unrelated business income and net taxable income, listed on lines 7a and 7b. Ask, in the initial interview about the extent to which employees and volunteers are involved in fundraising activities.
- Check Part IV line 2 to see if Schedule B is required. If required, look for an attached Schedule B. Check Part IV lines 14b, 17, 18, 29, and 30 to see whether Schedules F, G, and M are required. If required, look for the attached schedules.
- Review Part V for answers to lines 3, 6, and 7. Check for a filed Form 990-T, if not already present in the file. Obtain a copy from Online SEIN if necessary.
- If Schedule F is present, review the answers to Part I line 3. Look for any references to fundraising. Add any activities thus identified to the pre-audit analysis workpaper. Take note of the information in columns (a) through (f) for any identified fundraising activities. Check Part V for any supplemental information concerning the fundraising activities. Be prepared to ask about the foreign fundraising activity in the initial interview.
- If Schedule G is present, compare the amount reported in Part II column (d) lines 3, 10, and 11 against the amounts reported on Part VIII line 8 of Form 990. Note any discrepancies.

- Add to the pre-audit analysis workpaper notes about the events listed in Schedule G Part II columns (a) and (b). Add these events to the initial interview questions, with a focus on whether they give rise to unrelated business taxable income.
- If Schedule G Part I line 2a is yes, ask in your initial IDR for the contracts for each professional fundraiser. Verify whether the fundraiser is registered with the state charities division as a charitable solicitor. Compare the percentage of proceeds retained by the fundraiser as listed on Schedule G to any percentages listed with the state. Note any discrepancies.
- Prepare a sampling workpaper. On the workpaper note the amount of contributions, fundraising event income, and direct expenses reported on Part VIII lines 1c and 8. Request, books, journals or ledgers specific to the fundraising events.
- If Schedule M is present, total the amounts in Part 1 column (c), rows 1 through 28. Compare this total to Part VIII line 1g of Form 990. Note any discrepancies in the pre-audit analysis workpaper. Identify any large, unusual or questionable amounts, and add them to the workpaper.
- Ask in your initial IDR to have the Forms 8283 available for review. Consider the responses to Schedule M lines 30 through 33. Determine whether to investigate any positive responses to the questions. Request the organization to make documents available for review for any responses you deem questionable. Add the issues to the pre-audit analysis workpaper.
- Review Part III and Schedule O, if attached, for a discussion of any fund raising activities. Note any large, unusual, or questionable items in these sections in your pre-audit analysis workpaper.

Auditing Form 990-PF

- Check Part I line 2 to see if the Schedule B block is checked. If unchecked, look for an attached Schedule B.
- Note any fundraising events listed in Part XVI-A line 9 in your pre-audit analysis workpaper. Reconcile Part XVI-A to Part I, as discussed above. Note any discrepancies on your pre-audit analysis workpaper. Identify and note any large, unusual or questionable items in Part XVI-A.
- Prepare a sampling workpaper. On the workpaper note the amount of contributions, fundraising event income, and direct expenses reported on Part I line 1 and Part XVI-A lines 1, 9, 10, and 11. Request, books, journals or ledgers specific to the fundraising events.
- Review Part XVI-B for a discussion of any fundraising activities. Make notes in the pre-audit analysis workpaper about any large, unusual, or questionable items discussed in these sections.

Auditing Form 990-T

- If the Form 990-EZ, 990, or 990-PF indicates that the organization engaged in a taxable activity, but no Form 990-T was filed, add to your initial interview questions.

- If your analysis of Form 990-EZ, 990, or 990-PF identifies potential taxable fundraising activities not reported on a tax return, create a workpaper for each activity to present your audit steps, analysis, and findings of the activity. For each workpaper, analyze whether the activity is a regularly carried on trade or business not substantially related to exempt purposes, and then determine if any exception or modification applies.
- For fundraising activities identified as taxable, and for filed Form 990-T, create a workpaper for the tax computation. Create a separate section as needed to present allocation methods of indirect expenses.
- For filed Forms 990-T, note the sources of income, the amounts of income and expenses claimed. Add questions to the initial interview to discuss how the taxpayer determined liability and allocated indirect expenses.

Identify possible acceptable allocation methods for each type of expense claimed on Form 990-T. See the table below for ideas:

Expense type:	Allocation method:
Cost of goods sold	Actual amount used in activity (excess retained as inventory)
Salaries	Time specific individual spent on activity divided by total time worked, multiplied by annual pay of individual
Repairs and maintenance	Amount of specific expense incurred for maintenance or repair of asset, multiplied by time the asset was used for the activity, divided by total time asset is available for use (if expense should be capitalized instead, the expense is not
Taxes and licenses	Direct allocation: sales taxes generated by activity. Indirect: property taxes on organization's property, multiplied by the activity time spent on the property, divided by total time property is available for use. Indirect: license costs are only applicable if the activity involves use of the license (banquet/bar license, food service permits). If the license is incurred for the activity only, the license is fully deductible. If license covers organization's operations, allocate on the basis of event
Utilities (electricity, water, phone, etc.)	Multiply the specific expense by the time of the activity divided by the total time the facility is available. Multiply that figure by the square footage of the space used for the activity, then divide it by the total square footage of the facility.
Depreciation: personal property	Allocate the annual depreciation of an asset used in the activity by multiplying the depreciation expense by the time spent using the asset for the activity, divided by the total time the asset is

Depreciation: building	Allocate the annual depreciation of a building if any portion of the building was used for the activity. Multiply the annual depreciation expense by the time spent using the building for the activity, divided by the total time the building was available for use, and further multiplied by the square footage of the space used in the activity,
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Audit Procedures and Guidelines

- Complete the pre-audit analysis, including reviewing documents you received in response to the initial Form 4564, Information Document Request. Have the list of identified large, unusual, and questionable items ready at hand, for either an in-person request or a second IDR. Have the initial interview questions ready, along with the list of items noted for the tour of facilities.
- Meet with the taxpayer, conduct the initial interview, and tour the facilities. See [IRM 4.75.11](#), On Site Audit Guidelines.
- Document the initial interview and the tour of facilities. Add entries on Form 5773 discussing the procedures and findings. Update the case chronology record as applicable.
- Inspect the items you requested from the taxpayer. Make notes in the applicable workpapers concerning your findings.
- Give the taxpayer a list of items you'll sample, trace, vouch, inspect and analyze. Document your analysis and findings in the appropriate workpaper.
- Analyze large, unusual and questionable items identified in the pre-audit. Determine whether issues remain. Document your conclusions in the workpaper and on Form 5773.
- Review the taxpayer's fundraising activities after reviewing documents and testimony. Determine whether the activities give rise to tax (UBI, employment, excise,) and whether the activities give rise to prohibited benefits (inurement, substantial private benefit).
- Conduct third party contacts, if necessary, to obtain additional information to supplement the taxpayer-provided information. Issue a summons, if necessary. Discuss with your manager before you do either action.
- Generate substitutes for returns for tax issues (UBI, employment, excise) if the organization didn't previously file them. See [IRM 4.75.22](#), EO Delinquent, Amended and Substitute for Return Procedures.
- Complete all pertinent workpapers. Determine whether the fundraising activities gives rise to any issues (tax adjustment, revocation, foundation status reclassification, proper reporting, etc.) Determine whether any penalties apply. Offer the taxpayer Fast Track Settlement, if eligible. Prepare and issue reports of examinations or advisories as needed.

Penalty Considerations

Exempt organizations are subject to certain penalties that apply to no other type of entity. [IRM 20.1.8](#), Employee Plans and Exempt Organizations Miscellaneous Civil Penalties, describes them and lists procedures for assessing these penalties.

There are three sets of penalties that pertain specifically to donations to exempt organizations. This section focuses on the accuracy, non-deductibility disclosure failure, and quid-pro-quo disclosure failure penalties.

Accuracy Penalty

In certain situations, an organization that knowingly prepares an inaccurate substantiation statement and signs the qualified appraisal summary could be subject to penalties for aiding and abetting an understatement of tax liability. In addition, the donor may be subject to accuracy penalties if they overstate the value or adjusted basis of donated property. IRC Section 6701 and IRC Section 6662. See [IRM 20.1.5.9](#), IRC Section 6662(e), Substantial Valuation Misstatement.

The accuracy penalty is 20 percent of the underpayment of tax related to the valuation overstatement if:

- The value or adjusted basis claimed on the return is 150 percent (200 percent for returns filed on or before August 17, 2006) or more of the correct amount.
- The donor underpaid their tax by more than \$5,000 because of the valuation overstatement.

The penalty is 40 percent, rather than 20 percent, if:

- The value or adjusted basis claimed on the return is 200 percent (400 percent for returns filed on or before August 17, 2006) or more of the correct amount.
- The donor underpaid their tax by more than \$5,000 because of the valuation overstatement.

An appraiser who prepares an incorrect appraisal may have to pay a penalty if:

- The appraiser knows or should have known the appraisal would be used in connection with a return or claim for refund.
- The appraisal results in the 20 percent or 40 percent penalty for a valuation misstatement.

The penalty imposed on the appraiser is the smaller of:

- The greater of 10 percent of the underpayment due to the misstatement, or \$1,000.
- 125 percent of the gross income received for the appraisal.

See IRC Section 6695A. See also [IRM 20.1.12](#), Penalties Applicable to Incorrect Appraisals.

In addition, any appraiser who falsely or fraudulently overstates the value of property described in a qualified appraisal on a Form 8283 that the appraiser has signed may be subject to a civil penalty for aiding and abetting an understatement of tax liability, and may have his or her appraisal disregarded.

Failure to Disclose Nondeductibility

Organizations that can't receive deductible contributions must disclose such non-deductibility when soliciting contributions. Failure to disclose triggers a penalty. The penalty is \$1,000 for each day on which a failure occurs. The penalty may not exceed \$10,000 for any calendar year. IRC Section 6113 and IRC Section 6710(a). See [IRM 20.1.8.2.4](#), IRC Section 6710 - Failure to Disclose that Contributions are Nondeductible.

Intentionally disregarding the disclosure requirement triggers another penalty. This penalty is the greater of \$1,000 or 50 percent of the aggregate cost of solicitations that occurred on days where the solicitations didn't include the required disclosure statement. This penalty has no limit. IRC Section 6710(c). See [IRM 20.1.8.2.4](#).

For the penalty, the deemed date of any failure to meet the disclosure requirements for a solicitation:

- Via television or radio, is the date of telecasting or broadcasting.
- Via mail, is the date of mailing.
- Via a written or printed form (not mailed), is the date of distribution.
- Via telephone, is the date of the call.
- Via web page, is the date of first online viewing availability.

Don't assess penalties if the organization can demonstrate the failure is due to reasonable cause. See [IRM 20.1.1.3](#), Criteria for Relief From Penalties, for a discussion of reasonable cause.

For penalty abatement and appeals procedures, see IRM 20.1.1.4, Methods of Appealing Penalties.

Failure to Make Written Disclosure for Quid Pro Quo Contributions

Quid pro quo contributions trigger certain disclosure requirements for charities and private foundations. For each contribution in excess of \$75, the organization must provide a written statement to the donor disclosing the nature and extent of the quid pro quo portion of the transaction. If the organization doesn't make the disclosure, it results in a penalty. IRC Section 6115 and IRC Section 6714.

Each failure to provide a donor with the required written statement results in a \$10 penalty. The maximum penalty per fundraising event or mailing is \$5,000. (IRC Section 6714(a))

Don't assess the penalty if the organization can establish reasonable cause for the failure. For reasonable cause relief guidelines, see [IRM 20.1.1.3](#). For assessment instructions, see [IRM 20.1.8.2.6](#), IRC Section 6714 - Failure to Meet Certain Disclosure Requirements.

Case Closing Procedures

Complete all workpapers you created in your audit. Complete Form 5773 and make sure the conclusions match those in your workpapers. Assemble the case folders properly. See IRM 4.75.16.7, Case File Assembly.

If closing as a no change, prepare the appropriate closing letter. See [IRM 4.75.15, Closing Letters and Reports of Examination](#). Prepare an advisory addendum if needed.

If closing as an agreed tax change, secure the taxpayer's agreement and payment. If the taxpayer is unable to pay in full, see IRM 4.75.16.5.7, Installment Agreements. Prepare Letter 3607, Agreed Examination Changes, and make a photocopy of the signed agreement form to include with the letter. Assemble the closing letter package per [IRM 4.75.15](#), Closing Letters and Reports of Examination.

For agreed revocations, modifications, and changes in foundation status, secure the applicable signed agreement on Form 6018 or 6018-A. Close the case file to Mandatory Review, provided that sufficient time remains on the statute. See IRM 4.75.16.6, Cases Subject to Mandatory Review, and [IRM 4.75.16.4.2](#), Statute Considerations.

For unagreed tax or status changes ensure that the case file is complete. If an administrative record is required, properly assemble the record per [IRM 4.75.32](#), Declaratory Judgment Cases And The Administrative Record. Close the case file to Mandatory Review if there is sufficient time remaining on the statute. See IRM 4.75.16.6 and [IRM 4.75.16.4.2](#).