

# *Non-Profit Financial Managers*

## *Fundraising Activities and the IRS: Things to Watch Out for to Avoid Problems*

**Laura J. Kenney**  
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The passion to unlock potential

# Agenda

- Why now?
- Tax reporting challenges and avoiding pitfalls
- IRS Audit Technique Guide



# Why Now? Two reasons!

1. Fundraising efforts predicted to increase
2. IRS Audit Technique Guide on Fundraising



# Fundraising Efforts Predicted to Increase

## Tax incentives for donors have changed

- Increase in standard deduction
- Reduction of top marginal rate
- Charitable deduction limit increase to 60% AGI



# Fundraising Efforts Predicted to Increase

## Tax incentives for donors have changed

- No Pease limit on itemized deductions
- No 80% deduction for payments for right to buy tickets to a college athletic event
- Reduction in estate taxes



# Fundraising Efforts Predicted to Increase

## How will tax changes affect charitable giving?

- Why do people give?
- What are your donor stratum?
- How will your fundraising efforts change?

***What is the panacea?***

# Fundraising Efforts Predicted to Increase

Has your organization strategized internally (with your development team, management team, board, etc.) on how to increase charitable giving in light of tax reform?

- ☐ Yes
- ☐ No or not yet
- ☐ Other/don't know



# Fundraising Efforts Predicted to Increase

Why do people like to give ...?

**Fun!**

*Chance to win things*

OPPORTUNITY TO NETWORK

**Opportunity to socialize**

*Because someone asked*

**Want to feel good**

Want to be recognized

*Want to know what their money does*

Want to know they helped someone

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**Want to belong**



# Fundraising Efforts Predicted to Increase

**What are your strategies for different donor stratusms?**

Wealthy donors

Bunching of donations

Foundation donors

Donor advised funds

Corporate donors

Charitable trusts

IRA charitable rollover

Gift tax exclusion

Appreciated stock and other property

Communication and cultivation

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# Tax Reporting Challenges... ...and Avoiding Pitfalls

- Cash contributions
- In-kind contributions
- Fundraising events
- Raffles
- Auctions
- Sponsorships
- Anonymous gifts
- Receipts
- State registrations
- Form 990 reporting
- Appraisals
- Gift acceptance policy

# Tax Reporting Challenges... ...and Avoiding Pitfalls

## Cash contributions

- Under \$250
- \$250 or more
- Contemporaneous
- Acknowledgement receipt - example

# Tax Reporting Challenges... ...and Avoiding Pitfalls

## Cash contributions - \$250 or more

*“Thank you for your generous donation of \$300 to support Charity ABC! We provided you no goods or services in consideration for this gift. ABC Charity greatly appreciates your support! Thank you!”*

# Tax Reporting Challenges... ...and Avoiding Pitfalls

## In-kind contributions

- Donated services (or the use of facilities)
  - No tax deduction for donated time
  - Out-of-pocket expense may be deductible
- Noncash contributions
  - More than \$500 and up to \$5,000 – just receipts
  - More than \$5,000 – receipts and Form 8283
  - Acknowledgement receipt – example

# Tax Reporting Challenges... ...and Avoiding Pitfalls

## Noncash contributions - \$250 or more

*“Thank you for your lovely donation of the 19<sup>th</sup> century antique lamp table to Charity ABC! We provided you no goods or services in consideration for this gift. We greatly appreciate your continued support of our annual auction!”*

# Tax Reporting Challenges... ...and Avoiding Pitfalls

## Fundraising events

- Galas
- Balls
- Dinners
- Banquets
- Golf outings

# Tax Reporting Challenges... ...and Avoiding Pitfalls

## Raffles

- Chances to win are not charitable contributions
- Items donated to raffle off ARE charitable deductions
- Need to register for Massachusetts



# Tax Reporting Challenges... ...and Avoiding Pitfalls

## Auctions

- Noncash donations for the auction are deductible
- Winning bids – only deductible if above value of item

# Tax Reporting Challenges... ...and Avoiding Pitfalls

## Sponsorships

- Qualified corporate sponsorship is contribution
- Be aware of advertising – could be taxable UBI

# Tax Reporting Challenges... ...and Avoiding Pitfalls

## Anonymous gifts

- Do they get a charitable receipt?
- Anonymous to the public – fine
- Anonymous to the IRS – not fine

# Tax Reporting Challenges... ...and Avoiding Pitfalls

## Receipts

- Cash
- Noncash
- Vehicles
- Quid pro quo
  - contributions over \$75 are deductible only for portions that exceed value of goods/services provided by charity
  - solicitation or receipt
  - must provide a good faith estimate of value of goods/services provided by charity

# Tax Reporting Challenges... ...and Avoiding Pitfalls

## Receipts – quid pro quo over \$75

*“Thank you for your \$400 for 2 tickets to our Spring Night Gala! The estimated value of the gala dinner for 2 tickets is \$250. The amount of your contribution that is deductible for federal income tax purposes is limited to the excess of your payment over the value of the goods or services provided by Charity ABC, so your tax deductible contribution is limited to \$150. We are so grateful that you joined us for Spring Night!”*

# Tax Reporting Challenges... ...and Avoiding Pitfalls

## State registrations

- Be aware of compliance requirements
- Various states have different rules

# Tax Reporting Challenges... ...and Avoiding Pitfalls

## Form 990 reporting

<b>A</b>		<b>b</b> Net unrelated business taxable income from Form 990-T, line 34	<b>7b</b>	21,298.
<b>Revenue</b>	<b>8</b>	Contributions and grants (Part VIII, line 1h)	Prior Year	Current Year
			427,081.	515,751.
	<b>9</b>	Program service revenue (Part VIII, line 2g)	791,830.	864,334.
	<b>10</b>	Investment income (Part VIII, column (A), lines 3, 4, and 7d)	25,446.	4,741.
	<b>11</b>	Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	240,650.	168,923.
	<b>12</b>	Total revenue - add lines 8 through 11 (must equal Part VIII, column (A), line 12)	1,485,007.	1,553,749.
<b>Expenses</b>	<b>13</b>	Grants and similar amounts paid (Part IX, column (A), lines 1-3)	0.	0.
	<b>14</b>	Benefits paid to or for members (Part IX, column (A), line 4)	0.	0.
	<b>15</b>	Salaries, other compensation, employee benefits (Part IX, column (A), lines 5-10)	755,133.	786,101.
	<b>16a</b>	Professional fundraising fees (Part IX, column (A), line 11e)	0.	0.
	<b>b</b>	Total fundraising expenses (Part IX, column (D), line 25)		135,323.
	<b>17</b>	Other expenses (Part IX, column (A), lines 11a-11d, 11f-24e)	657,741.	
	<b>18</b>	Total expenses. Add lines 13-17 (must equal Part IX, column (A), line 25)	1,412,874.	
	<b>19</b>	Revenue less expenses. Subtract line 18 from line 12	72,133.	



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# Tax Reporting Challenges... ...and Avoiding Pitfalls

## Form 990 reporting

16	Did the organization report on Part IX, column (A), line 3, more than \$5,000 of aggregate grants or other assistance to or for foreign individuals? If "Yes," complete Schedule F, Parts III and IV	16		X
17	Did the organization report a total of more than \$15,000 of expenses for professional fundraising services on Part IX, column (A), lines 6 and 11e? If "Yes," complete Schedule G, Part I	17		X
18	Did the organization report more than \$15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? If "Yes," complete Schedule G, Part II	18	X	
19	Did the organization report more than \$15,000 of gross income from gaming activities on Part VIII, line 9a? If "Yes," complete Schedule G, Part III	19		X

Form 990 (2016)



# Tax Reporting Challenges... ...and Avoiding Pitfalls

## Form 990 reporting

<p>28c Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? If "Yes," complete Schedule M</p>	28c	X
<p>29 Did the organization receive more than \$25,000 in non-cash contributions? If "Yes," complete Schedule M</p>	29	X
<p>30 Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? If "Yes," complete Schedule M</p>	30	X

# Tax Reporting Challenges... ...and Avoiding Pitfalls

## Form 990 reporting

<b>6a</b>	Does the organization have annual gross receipts that are normally greater than \$100,000, and did the organization solicit any contributions that were not tax deductible as charitable contributions? .....	6a		X
<b>b</b>	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible? .....	6b		
<b>7</b>	<b>Organizations that may receive deductible contributions under section 170(c).</b>			
<b>a</b>	Did the organization receive a payment in excess of \$75 made partly as a contribution and partly for goods and services provided to the payor? .....	7a	X	
<b>b</b>	If "Yes," did the organization notify the donor of the value of the goods or services provided? .....	7b	X	
<b>c</b>	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282? .....	7c		X
<b>d</b>	If "Yes," indicate the number of Forms 8282 filed during the year .....	7d		
<b>e</b>	Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract? .....	7e		X
<b>f</b>	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract? .....	7f		X

# Tax Reporting Challenges... ...and Avoiding Pitfalls

## Form 990 reporting

<b>Part VIII Statement of Revenue</b>					
Check if Schedule O contains a response or note to any line in this Part VIII .....					
			(A) Total revenue	Rel exemp re	
<b>Contributions, Gifts, Grants and Other Similar Amounts</b>	<b>1 a</b> Federated campaigns .....	<b>1a</b>			
	<b>b</b> Membership dues .....	<b>1b</b>			
	<b>c</b> Fundraising events .....	<b>1c</b>	78,586.		
	<b>d</b> Related organizations .....	<b>1d</b>			
	<b>e</b> Government grants (contributions) .....	<b>1e</b>			
	<b>f</b> All other contributions, gifts, grants, and similar amounts not included above .....	<b>1f</b>	437,165.		
	<b>g</b> Noncash contributions included in lines 1a-1f: \$ .....		17,881.		
	<b>h</b> Total. Add lines 1a-1f .....			515,751.	
<b>2 a</b> ROWING	<b>Business Code</b> 611600		350,030.	35	

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# Tax Reporting Challenges... ...and Avoiding Pitfalls

## Form 990 reporting

Other Revenue	c	Gain or (loss)	0.	-8,084.				
	d	Net gain or (loss)			-8,084.			-8,084.
	8 a	Gross income from fundraising events (not including \$ 78,586. of contributions reported on line 1c). See Part IV, line 18	a	38,124.				
	b	Less: direct expenses	b	47,076.				
	c	Net income or (loss) from fundraising events			-8,952.			-8,952.
	9 a	Gross income from gaming activities. See Part IV, line 19	a					
	b	Less: direct expenses	b					
	c	Net income or (loss) from gaming activities						

# Tax Reporting Challenges... ...and Avoiding Pitfalls

## Form 990 reporting

section 401(k) and 403(b) employer contributions)					
9	Other employee benefits .....	23,578.	19,376.	3,096.	1,106.
10	Payroll taxes .....	60,266.	44,989.	8,812.	6,465.
11	Fees for services (non-employees):				
a	Management .....				
b	Legal .....				
c	Accounting .....	16,550.		16,550.	
d	Lobbying .....				
e	Professional fundraising services. See Part IV, line 17				
f	Investment management fees .....				
g	Other. (If line 11g amount exceeds 10% of line 25, column (A) amount, list line 11g expenses on Sch O.)	12,373.	3,878.	8,495.	
12	Advertising and promotion .....	20,069.		20,069.	

# Tax Reporting Challenges... ...and Avoiding Pitfalls

## Form 990 reporting

<b>Schedule B</b> (Form 990, 990-EZ, or 990-PF) Department of the Treasury Internal Revenue Service	<b>Schedule of Contributors</b> ▶ Attach to Form 990, Form 990-EZ, or Form 990-PF. ▶ Information about Schedule B (Form 990, 990-EZ, or 990-PF) and its instructions is at <a href="http://www.irs.gov/form990">www.irs.gov/form990</a> .	OMB No. 1545-0047 <div style="font-size: 2em; font-weight: bold;">2016</div>	
Name of the organization  SCHOOL, INC.		Employer identification number  	
<b>Part I Contributors</b> (See instructions). Use duplicate copies of Part I if additional space is needed.			
(a) No.	(b) Name, address, and ZIP + 4	(c) Total contributions	(d) Type of contribution
1	CORP.  PO BOX 158  XYZ, MA	\$ 10,000.	Person <input checked="checked" type="checkbox"/> X Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> <small>(Complete Part II for noncash contributions.)</small>
(a)	(b)	(c)	(d)

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# Tax Reporting Challenges... ...and Avoiding Pitfalls

## Form 990 reporting

Schedule G (Form 990 or 990-EZ) 2016

Page 2

**Part II Fundraising Events.** Complete if the organization answered "Yes" on Form 990, Part IV, line 18, or reported more than \$15,000 of fundraising event contributions and gross income on Form 990-EZ, lines 1 and 6b. List events with gross receipts greater than \$5,000.

		(a) Event #1 OPENING OF	(b) Event #2	(c) Other events NONE	(d) Total events (add col. (a) through col. (c))
		(event type)	(event type)	(total number)	
Revenue	1 Gross receipts	116,710.			116,710.
	2 Less: Contributions	78,586.			78,586.
	3 Gross income (line 1 minus line 2)	38,124.			38,124.
Direct Expenses	4 Cash prizes				
	5 Noncash prizes	21,781.			21,781.
	6 Rent/facility costs	8,507.			8,507.
	7 Food and beverages	6,646.			6,646.
	8 Entertainment	4,400.			4,400.
	9 Other direct expenses	5,742.			5,742.
	10 Direct expense summary. Add lines 4 through 9 in column (d)				47,076.
	11 Net income summary. Subtract line 10 from line 3, column (d)				-8,952.

**Part III Gaming.** Complete if the organization answered "Yes" on Form 990, Part IV, line 19, or reported more than

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# Tax Reporting Challenges... ...and Avoiding Pitfalls

## Appraisals

- Qualified appraisers – specific definition, expertise
- Form 8283 – for donations valued over \$5,000
- Charity should not pay for appraisals for donors



# Tax Reporting Challenges... ...and Avoiding Pitfalls

## Gift acceptance policy considerations

- Board adopt a written policy
- Appoint committee to review unusual donations
- Document date of approval(s)
- Default to renegotiate
- Always instruct donor to consult his/her legal counsel
- Address legal, environmental, appraisal matters
- Consider reputational risk

# IRS Audit Technique Guide

## IRS's Audit Technique Guides (ATGs)

- [Public Charities](#)
- [Private Foundations](#)
- [Private and Charter Schools](#)
- [Educational Organizations Other Than Schools](#)
- [Religious Organizations](#)
- [Other 501\(c\)\(3\) Organizations](#)
- [Fundraising Activities \(applies to multiple types of exempt organizations\)](#)



# IRS Audit Technique Guide

## Fundraising Activities – ATG

- Professional fundraisers
- Fundraising events
- Substantiation rules
- Quid pro quo contributions
- Non-cash contributions
- Penalty considerations

### 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.

# IRS Audit Technique Guide

## IRS types of contacts

- ❑ “Soft” letters – educational outreach
- ❑ Compliance checks
- ❑ Correspondence audits
- ❑ Field audits

INTERNAL REVENUE SERVICE  
P. O. BOX 2508  
CINCINNATI, OH 45201

DEPARTMENT OF THE TREASURY

Date: MAR 2 0 2007

121 AVN ASSOCIATION  
C/O JOHN D SCHMIDT  
310 FOX VILLAGE CT  
BALTIMORE, MD 63021

Employer Identification Number:  
20-5972206  
DIN:  
17053047037037  
Contact Person: JOHN C KISSER  
Contact Telephone Number: ID# 31217  
(877) 829-5500  
Accounting Period Ending:  
December 31  
Form 990 Required:  
Yes  
Effective Date of Exemption:  
November 21, 2006  
Contribution Deductibility:  
Yes

Dear Applicant:

We are pleased to inform you that upon review of your application for tax-exempt status we have determined that you are exempt from Federal income tax under section 501(c)(19) of the Internal Revenue Code. Because this letter could help resolve any questions regarding your exempt status, you should keep it in your permanent records.


Please see enclosed Information for Organizations Exempt Under Sections Other Than 501(c)(3) for some helpful information about your responsibilities as an exempt organization.

This determination is based on your representation that at least 75 percent of your members are past or present members of the Armed Forces of the United States defined under section 501(c)(19) of the Code. It is also based on your representation that substantially all of your other members, if any, are individuals who are cadets, or are spouses, widows, or widowers of past or present members of the Armed Forces of the United States or of cadets.

Based on your representation that at least 90 percent of your members are war veterans and that you are organized and operated primarily for purposes consistent with your current status as a war veterans organization, donors can deduct contributions made to or for the use of your organization.

If, in the future, your organization does not meet this membership test or if your purposes, character, or method of operation changes, donors cannot deduct contributions to or for the use of your organization, as provided by section 170.

Sincerely,

  
Lois G. Lerner  
Director, Exempt Organizations  
Rulings and Agreements

Enclosure: Information for Organizations Exempt Under Sections Other Than 501(c)(3)

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# IRS Audit Technique Guide

## Our predictions of IRS red flags include

- ☐ Fundraising events
- ☐ Noncash contributions
- ☐ Art & historical treasures
- ☐ Anonymous donors



# Thank you for participating today!

Laura J. Kenney, CPA, MST  
Principal  
617.221.1944  
lkenney@blumshapiro.com  
Non-Profit Tax Services



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