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Your Donor Receipts: Do They Make the Grade?

Be careful with the language printed on the receipts you give in exchange for contributions. If you make a mistake, the results can be embarrassing for you and expensive for your donors.

In one case, for example, the U.S. Tax Court disallowed deductions claimed by a California couple who split premiums with a national foundation on a cash-value life insurance policy for the wife. The husband and wife made payments to the National Heritage Foundation and the organization used the money to pay premiums on the insurance policy. The couple then deducted the entire amount of their payments as a charitable contribution.



Under a so-called charitable split-dollar agreement, the charity was entitled to receive 56 percent of the death benefit and the couple's family was entitled to receive 44 percent.

The organization's receipt did not estimate the value of the insurance benefits that the couple received in exchange for their donation. Instead, it read simply that "In accordance with IRS regulations, the National Heritage Foundation did not provide any goods and services to the donor in return for the contribution."

The IRS denied the deductions because the couple did receive a benefit for their contributions and because the transaction didn't comply with substantiation requirements under the law. The "contemporaneous written acknowledgment" the foundation gave the couple incorrectly stated that no goods or services were received, the IRS argued and the Tax Court agreed. (*Addis*, 118 TC 32)

However, the couple "received substantial benefits from NHF under the life insurance policy," the Court noted. "Both had incentives to proceed under this scheme with the pot sweetened by charitable contribution deductions."

If your organization receives tax-deductible contributions, donors must obtain from you a letter or receipt for any single contribution of \$250 or more before they file their federal tax returns and claim the gifts. (You will not be penalized if you fail to acknowledge these contributions, but donors cannot claim deductions without the written acknowledgment.) Such a letter or receipt may also be used to substantiate gifts of less than \$250.

Here's a list of the items that should appear in your donor receipts:

- Your group's full legal name.
- The amount of a cash contribution.
- A description (but not the value) of any non-cash contribution.
- A statement that you did not provide goods or services in exchange for the gift, if that is the case.
- A description and good-faith estimate of the value of any goods or services you did provide in return for the contribution.

You do not need to list a donor's Social Security number or tax identification number on the receipt.

These acknowledgments may be printed on paper or sent via e-mail to the donor. A single receipt can combine several contributions of \$250 or more -- on an annual summary. You should plan to issue receipts as soon as possible after donations are received, but no later than January 31 of the year following the gifts.

If donors make gifts to you through payroll deductions, they can rely on their pay stubs, W-2 forms, or pledge cards to support the charitable deductions. If they claim deductions based on unreimbursed expenses (for example, auto expenses in the course of doing volunteer work), they must obtain from your group a written receipt and they must keep accurate records of the unreimbursed expenses.

Also, your organization must provide a letter or receipt to donors who receive goods or services in exchange for any payments exceeding \$75.

For example: Let's say a supporter buys a \$125 dinner ticket with a fair market value of \$60 for food and entertainment costs. Because the donor's payment exceeds \$75, you should provide a receipt to the supporter, even though the deductible amount is not over \$75. Your statement should inform donors that they can deduct only the excess of the contribution above the value of the goods and services you have provided, and you should include a good-faith guess of the value.

Consult your tax adviser to review any changes you make to your current donor receipts.

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