

PBPA Podcast Transcript
Episode: What to Include in a Thank You to Donors
November 5, 2020
(13:31 minutes; see related template exhibit on website,
referenced at 2:17 and 12:56)

Sireesha (0:00):

Hello, and welcome to the PBPA podcast. I'm your host, Sireesha Ghanta. Today, our guest will be answering questions about gift acknowledgements, to ensure your nonprofit is thanking donors the legal way. Before I introduce today's guest, I'd like to tell you, our audience, a bit about the Pro Bono Partnership of Atlanta. PBPA strengthens our community by engaging volunteer attorneys to provide nonprofits with free business legal services. For more information on who is eligible to be a client, or to apply for consideration, visit our website at PBPATL.org. Our website also has tons of resources, including articles and webcasts specific to Georgia nonprofits and their business legal concerns. Please keep in mind that this podcast is general information; it's not legal counsel. Contact your attorney for guidance on your nonprofit's specific situation. And now, to answer some questions about donation acknowledgments is PBPA Senior Corporate and Tax Counsel, Robyn Miller. Hi Robyn, glad to have you here.

Robyn (1:19):

Hi Sireesha. Thank you so much for having me on today. I appreciate it.

Sireesha (1:24):

So, Robyn, most listeners to this podcast probably already know that some sort of written documentation must be provided to a donor. But can you remind us, what's the purpose of an acknowledgment?

Robyn (1:38):

Sireesha, since 1994, the Internal Revenue Code has required 501(c)3s to provide substantiation of certain gifts. Donations of cash, or a cash-equivalent gift, of \$250 or more must be substantiated by the 501(c)3. In addition, donations of \$75 or more, where the donor receives something in return, must also be substantiated.

Sireesha (2:06):

So, the written documentation serves as substantiation. And what specific information must an acknowledgement to donors include?

Robyn (2:17):

Well, first I have to give a shout-out to Pro Bono Partnership of Atlanta's Acknowledgment Guide, which you can find on our website, which as Sireesha said, is PBPATL.org. That Acknowledgment Guide not only explains many of the rules I'm going to cover today, but it also provides sample substantiation or acknowledgment letters for many of the situations we are going to cover, plus others. But you want to make sure you include the name and address of the charity, the name and address of the donor, the date of the contribution, the amount of the donation, or if it's an in-kind donation, a description of the

items that are being donated and a statement regarding whether goods or services were received in return for the donation, and if so, the value of those goods and services.

(3:10) So, for instance, there are three common statements that could be included: One is, “no goods or services were received in return for this donation”; the second is, “Goods or services in the amount of ‘x’ were received in return for this donation”; or, three, which usually doesn’t apply to our clients but applies to religious organizations, is “Only intangible religious benefits were received in return for this donation”.

Sireesha (3:44):

So, speaking of goods or services, sometimes a nonprofit gives something to a donor -- something small like a mug, or something larger like a dinner and a table at a gala. What should a nonprofit be aware of if it is providing goods and services as part of the donation?

Robyn (4:04):

So that is called a *quid pro quo*, and I used to have to explain what that definition means. It’s Latin words, what does it mean? I no longer seem to have to do that, but in case you don’t know, it means “this for that”. So, if a 501(c)3 receives a donation but gives something back in return, it must reduce the amount of the donation by the value of the goods or services received in return. So, I’ll give you a few examples. You mentioned a dinner. So, a gala dinner -- maybe a sponsor gives \$10,000, and in return they get 10 gala tickets. The gala isn’t some big fancy event where there’s a big headliner, like Sting or something like that. It’s just a nice meal, a nice time to gather and visit and support the organization, and so the tickets are about \$100 each, maybe, and the value of the actual meal, which is what somebody is getting in return, is \$50.

(5:10) So, let’s go back to our example: The donor has given \$10,000 and they are getting 10 tickets, which is essentially 10 meals valued at \$50 each, so they are getting \$500 in return. So, on your donation receipt, you would say, “Thank you so much for your generous donation of \$10,000.” And you go on to say what it will be used for, and then you say, “You received goods and services valued at \$500 in return for this donation”. Another example would be -- and this one gets a little trickier -- so, sweatshirts: somebody gives a \$50 donation, and they get a sweatshirt valued at \$25. You’ll have to say that \$25 was goods and services received in return. The amount of that donation is actually only \$25. And, when you get in that situation where they are giving \$25 for a \$25 sweatshirt, then there is really no donation, which I get that question sometimes.

(6:07) So, on the acknowledgment, you just have to identify what the value of the goods or services were received in return. And you can even go so far as in the \$10,000 example to say, “Thank you for your donation of \$10,000. You received a value of \$500 in return. Your potential tax-deductible amount is \$9,500.” There’s this whole other group of gifts that are given in return that fall under this idea of what’s called a low-cost article. And a low-cost article -- you may hear that NPR does this a lot -- they have giving campaigns, where if you give a certain amount you get something in return, an item. And depending on this type of item it is, and the value of that item, you may not have to even put it on your acknowledgment. You can just be silent about it on your acknowledgment. But it’s pretty technical, so you do need to know what the rules are in detail. And it’s basically a small-token item with a low value, that basically isn’t considered significant enough to be a “this for that”.

(7:15) There’s actually a regulation that the IRS updates every year. And it’s very, very specific. And we always put out an article in January on our website that describes what the regulation is for the current year for low-cost articles. So in 2020, if a donor makes a donation (and these numbers are going to

seem really funky, but there is some kind of calculation they do, or a cost-of-living adjustment they do, so they are very odd numbers, so just bear with me – but that’s why I always say go to our website, look up the article, because it gets updated every year with the specific numbers). But, a donor makes a donation of \$56 or more, and only receives in return a token item with the donee’s logo on it -- things maybe like a mug or a pen -- and it costs no more than \$11.20, then the item is considered a low-cost article, and the donor does not need to deduct that from the value of the contribution. So, in that case, if I give \$100 and I get a mug, and the mug costs \$6, then the 501(c)3 organization doesn’t even need to list it on that donation receipt. Further, if a donor receives something in return for a donation, where the cost of the item is not more than 2% of the donation or \$112, whichever is less, then the donor can deduct the full value of that donation.

(8:47) So, if I give \$1,000, I can’t receive an item valued at more than \$20 in return. So, the first exception involves those sort of logo items -- maybe the calendar, maybe the mug, the pen, little items. And then this other one is just a general limit on things that I can get in return. So, if (I donate) \$1,000, maybe I get that \$20 sweatshirt, and I don’t have to have that deducted from my \$1,000 donation. So, I wanted to point that out, it’s a pretty specific area, but it does come up with a lot of our clients.

Sireesha (9:27):

Ok, thanks Robyn. And that was a lot of numbers, so to our listeners, you’ll probably want to click on that link that Robyn referenced, our Donations Acknowledgment Guide. And, Robyn, when does that acknowledgment need to be sent to the donor?

Robyn (9:43):

That’s a really good question. The best practice is to send donation receipts no later than January 31st of the year following the donation. By law, substantiation or acknowledgments must be received by either the date the donor files their tax return, or the date the return is due, whichever comes first. So, some people file their returns early before their April 15th deadline, as an individual, and so you want to make sure that you’ve given them that substantiation receipt before they submit their return. Also, something to note, that if someone contributes monthly, you can bundle all those donations and give one donation receipt. You don’t have to give multiple ones.

Sireesha (10:30):

And does that need to be sent in a hard copy form, or is an email sufficient?

Robyn (10:36)

An email is sufficient, so long as it has all the correct information. However, we do recommend -- you know it’s really important for the 501(c)3 to keep detailed records of all of their acknowledgements, and they need to keep them for seven years – so, it’s important that if they are sending them as emails, that they are storing a copy somewhere of all those receipts, in case one of their donors is audited, in case they are audited, it’s really important to keep that.

Sireesha (11:07):

And so far, Robyn, we’ve been talking about cash gifts. What if a donor asks a nonprofit to include the value of a non-cash gift, like if they donated a desk for a nonprofit to use in their office? How can that be referenced in the acknowledgment?

Robyn (11:23):

So, a 501(c) 3 should not list the value of any in-kind donations. That is the responsibility of the donor to determine. The organization should simply state, "Thank you for your donation of a desk", maybe even describe that desk, and include all the other requirements that we have already discussed. If it's something that is a high-value item, there may be requirements to have an appraisal done, or other various mechanisms, for large dollar in-kind donations, and the IRS has forms that have to be completed for such transactions.

Sireesha (12:02):

Sometimes people want to help out a nonprofit, but in other ways aside from donating money or an item. For example, a graphic designer wants to offer their services to design a logo for a nonprofit for free. How should a nonprofit acknowledge a donation of time for services?

Robyn (12:21):

With a nice thank you note! Donations of services are not deductible. So, last year in 2019, we had about \$4.5 million worth of donated legal services to our clients at Pro Bono Partnership of Atlanta, none of which can be taken as a deduction by our volunteers. We so greatly appreciate their time and all the work that they do, but again, none of that is deductible. Only cash or in-kind donations are deductible from the perspective of what we are discussing today.

Sireesha (12:57):

This information will come in very handy as the year is wrapping up, Robyn, a year where our nonprofits are particularly thankful to donors. Thank you so much for sharing this great insight with us. You always do such a great job of breaking down these complicated IRS tax questions. And, to our audience, we will include a link to the template for acknowledgments and our Acknowledgment Guide on our podcast website. Thanks for tuning in and for all the good work you continue to do.