



What Mosques & Nonprofits Should Know About Charitable Recordkeeping and Acknowledging Contributions

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Agenda

- Introduction
- Importance of Substantiation & Disclosure
- Acknowledging Contributions
- Charity Provides Goods or Services
- Donated Services & Unreimbursed Expenses
- Public Inspection of Certain IRS Filings
- Q&A



Introduction

- Muslim Advocates—who we are
 - Works on the frontlines of civil rights to guarantee freedom and justice for Americans of all faiths
- Program to Strengthen Muslim Charities
 - Unique program with full-time staff attorney dedicated to guiding charities & donors
- Our speaker, Karim Hanafy
- Disclaimer



Importance of Substantiation & Disclosure Rules

- There are recordkeeping and substantiation rules imposed on donors of charitable contributions and disclosure rules imposed on charities that receive certain *quid pro quo* contributions.
- We will be discussing:
 - Knowing when and how to tell donors the fair market value of the goods or services you are providing in exchange for their contributions;
 - Ensuring that donors get written acknowledgments of their contributions so they will donate again; and
 - Identifying which records are open to public inspection.



Acknowledging Contributions: Cash

Written Substantiation Requirement for CASH Donations of \$250 or more

Donor **MUST** receive an acknowledgment letter from the Charity containing the following:

1. Name of Charity;
2. Name of Donor;
3. Date;

(Continued on next slide.)



Acknowledging Contributions: Cash

4. Amount of Donation (but you do not need to include the dates of the contributions);
 5. **A statement whether goods or services were given in exchange and if so, a description and good faith estimate of the value of those goods or services; if the goods or services consisted solely of intangible religious benefits, a statement to that effect.**
- Letter must be issued to Donor **before** Donor files tax return.
 - EIN is not required.
 - A cancelled check showing that a donation was made is **NOT** acceptable.



Acknowledging Contributions: Cash

Although this substantiation requirement applies only to donations of \$250 or more, charities should nevertheless issue this written acknowledgment letter to all Donors, regardless of the amount.



Acknowledging Contributions: Noncash

Written Substantiation Requirement for ALL NONCASH Donations

Donor **MUST** receive an acknowledgment letter from the Charity containing the following:

1. Name of Charity;
2. Name of Donor;
3. Date;

(Continued on next slide.)



Acknowledging Contributions: Noncash


4. Description, **but not the value**, of the donated item;
5. Date of the contribution;
6. **A statement whether goods or services were given in exchange and if so, a description and good faith estimate of the value of those goods or services; If the goods or services consisted solely of intangible religious benefits, a statement to that effect.**

- Issued to Donor before Donor files tax return.
- EIN is not required.



Acknowledging Contributions

- Acknowledgment from Charity may be made by letter, postcard, e-mail or computer-generated form.
- Charity may provide a separate acknowledgment for each contribution, or an annual acknowledgment that contains the required information previously described.



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Example – Cash Contribution


- See [Sample Acknowledgment Letter – Cash Donation](#).

MASJID LETTERHEAD

2/1/13

NAME
ADDRESS

Thank you for your contributions that totaled \$5,000 to Masjid in 2012. Because of your generous contributions, we are closer to moving into a new building. Please continue to support our Masjid and its many projects. No goods or services were given in exchange for your contributions.



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Example – Noncash Contribution


- See [Sample Acknowledgment Letter – Noncash Donation](#).

MASJID LETTERHEAD

2/1/13

NAME
ADDRESS

Thank you for your contribution of clothes and computer equipment that we received on December 18, 2012. No goods or services were given in exchange for your contributions.



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Charity Provides Goods or Services

- Even if Charity gives something to the Donor, Charity may still include the statement that no goods or services were given in exchange for the contribution if one of the following is met:
 1. Donor receives an item that is not more than 2% of the donation or \$102 (adjusted for inflation annually), whichever is less; or
 2. If the payment is at least \$51 (annually adjusted for inflation),
 - The only benefits received are token items such as mugs, calendars, etc. bearing the organization's name or logo, and
 - The cost (not the fair market value) does not exceed \$10.20 (annually adjusted for inflation) for ALL items received by the donor during that year.


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Examples of Goods or Services

1. An individual donates \$3,000 and in exchange receives a gift basket in exchange valued at \$30. Under the first exception, the value of the goods must be less than \$60 (2% of \$3,000) since \$60 is less than the \$102 threshold. Because the gift basket was valued at \$20, the donor may claim the entire \$3,000 as a deduction (i.e., no goods or services were given in exchange).
2. An individual donates \$100 and receives a logo shirt in exchange for the donation. The shirt costs the charity \$5. A deduction of \$100 would be allowed under the second exception: the donation is over the \$51 threshold, the cost of the shirt is less than \$10.20 and the shirt bears the organization's logo. So no goods or services were given in exchange.
3. If the individual receives a box of logo items that cost the charity \$15, and valued at \$20, in exchange for the \$100 donation, then goods or services were given in exchange: the value of the goods were more than 2% of the donation under the first exception; and the cost of the logo items exceed the \$10.20 threshold under the second exception.


Charity Provides Goods or Services

- Membership costs \$75 or less, and in exchange, Donor receives:
 - Free or discounted admissions to the charitable organization's facilities or events;
 - Discounts on purchases from the organization's gift shop;
 - Free or discounted parking; or
 - Free or discounted admission to member-only events sponsored by an organization, where a per-person cost is less than \$10.20, and where the rights or privileges can be exercised frequently during the membership period.
- This generally applies to performing arts organizations, museums, zoos, and aquariums, or other charitable organizations with an entrance fee

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Charity Provides Goods or Services

- If a religious organization provides only intangible religious benefits to a donor, the acknowledgment does not need to describe or value those benefits, but the acknowledgment letter must state the goods or services consisted solely of intangible religious benefits.
- Intangible religious benefit – a benefit provided by an organization exclusively for religious purposes and generally is not sold in a commercial transaction outside the donative context. Examples: admission to a religious ceremony, or free religious educational classes, in exchange for the donation.
- “Goods or services that the [Masjid] provided in return for the contribution consisted entirely of intangible religious benefits.”




Written Acknowledgment for a Fundraising Event

- For any amount received from a donor that exceeds \$75, a charity must furnish a written disclosure statement to the donor.
- Example: Charity charges \$100 per ticket for a fundraising dinner. The meal costs \$45/person.
 - Donor’s tax deduction is \$55.
 - Because Charity received more than \$75 (even though the deductible amount was less than \$75), Charity must furnish a letter to Donor in order for the Donor to claim the deduction.



Required Language

- When issuing an acknowledgment letter to the Donor, the letter must include the following:
 - A statement that the amount of the contribution that is deductible for federal income tax purposes is limited to the excess of money (and the fair market value of property other than money) contributed by the donor over the value of goods or services provided by the organization;
 - A good-faith estimate of the fair market value of the goods or services.




Example – Quid Pro Quo Contribution

- See [Sample Acknowledgment Letter – Quid Pro Quo Contribution](#)


“Thank you for generous donation of \$100 to our fundraising event. Please note that only the portion of your contribution that exceeds the value of any gifts you received is tax-deductible. The estimated fair market value of your dinner is \$45.”

- Letter must be issued to Donor before Donor files tax return.



Contribution of Services

- Example:** Attorney provides free legal services to Masjid. Attorney would have charged \$1,000 for the services provided to Masjid. Masjid issues an acknowledgment letter that includes the required language, and thanks him for his generous \$1,000 contribution of services that is tax-deductible.
- Contribution of services is NOT tax-deductible.
- Any expenses incurred as a result of the free services are deductible.




Unreimbursed Expenses

Example: In addition to the free services rendered, Attorney incurred costs of \$25 for transportation, \$20 for printing, \$10 for postage and \$200 for annual filing fees, all of which were for the benefit of Masjid

Masjid should provide Attorney a letter that includes:

- A description of the services provided by the Attorney
- A statement whether goods or services were provided in return for the contribution (i.e., unreimbursed expenses), and if so, a description and good faith estimate of the value of those goods or services; if the goods or services consisted solely of intangible religious benefits, a statement to that effect.


Letter must be issued to Attorney before Attorney files tax return.



Public Inspection of Certain IRS Filings


A public charity must make the following documents available for public inspection and copying upon request and without charge:

- Exemption Application (Form 1023), including:
 - All documents submitted with Form 1023
 - All documents IRS requires the organization to submit in support of its application
 - The exemption ruling letter issued by the IRS
- Annual Information Return (Form 990), if filed, including:
 - Schedules, attachments, and supporting documents filed with IRS
 - Does NOT include Schedule B (Names & Addresses of Contributors)
 - Remember, houses of worship are not required to file the Form 990
- Business Income Tax Return (Form 990-T)




Public Inspection of Certain IRS Filings

- Charity may place reasonable restrictions on the time, place, and manner of in-person inspection and copying, and may charge a reasonable fee for providing copies.
- Your organization must respond to requests, regardless of medium—in-person, phone, and e-mail.
- Organization does not have to comply with individual requests if it makes the documents available widely, such as through its website.
 - Hint: Link to Guidestar.org if the site carries your Form 990.
- If your organization intentionally disregards this rule, it will be penalized \$20 each day for noncompliance, up to a maximum of \$10,000.




Additional resources

- Muslim Advocates: www.muslimadvocates.org — Access our full, free **Nonprofit & Charity Toolkit** with sample acknowledgment letters, further guidance on accepting & managing charitable contributions, and more.
- IRS: www.irs.gov/charities — Contains information regarding establishing a 501(c)(3) and maintaining ongoing compliance requirements.
- StayExempt.org: www.stayexempt.org — An IRS site created especially for 501(c)(3) organizations, includes information on new organizations, existing organizations, and in-depth topics.



Questions?


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