



AUBURN UNIVERSITY

FOUNDATION

Auburn University: Development Accounting Guidance Memo

DETERMINING THE VALUE OF DONOR BENEFITS

IRS regulations require that a charitable organization make a “good faith” effort to value the benefits a donor receives as a result of a donation and to disclose a description and amount to the donor. While this sounds simple, in practice it can require judgment calls and estimates and be a time-consuming process. Because Development Accounting receives many questions about the process, we are offering this guidance memo.

Donor benefits may consist of tangible or intangible benefits. Intangible benefits might include admission to the Museum or other facilities, invitations to purchase tickets to events not available to the general public, discounts on purchases, parking in a reserved lot on football Saturdays, etc. Tangible benefits can be physically touched and include food/meals, mementos, books, pictures, shirts, etc. (There are special rules for tickets to athletic events that are not discussed here since we do not conduct the programs whose contributions entitle donors purchase tickets to athletic events).

Disregarded Benefits

Membership Benefits – A donor can deduct the amount of membership fees paid to a qualifying organization that exceed the value of benefits received. The following membership benefits can be excluded if the annual membership payment is \$75.00 or less:

1. Rights/privileges that can be used frequently such as free or discounted admission, free or discounted parking, preferred access to goods and services, or discounts on purchases of goods and services.
2. Admission to members-only events if the cost per person, not including overhead, is not more than \$9.50.

For annual membership payments of more than \$75.00, the rules are the same as for any payment to a qualifying organization that results in a donor benefit.

Token Items – A donor can deduct the total payment to a qualifying organization if both of the following are true:

1. The only benefit is a small token item, and
2. The organization informs you that you can deduct the full amount of the payment.

Whenever benefits are provided to donors, even when insubstantial, IRS regulations require solicitation materials to state that only insubstantial benefits are provided and that the resulting gift is fully-deductible, or to describe and value the benefit and state the tax-deductible amount.

Otherwise, even insubstantial amounts must be deducted from the gift value.

Items Deemed “Insubstantial”

The IRS further provides two methods of identifying benefits as token items:

1. Rev. Proc. 92-49 and IRC § 513(h)(2)

- a. The item is provided free and not at the request of the distributee, regardless of whether a subsequent gift is made, and without the express consent of the distributee,
- b. The item costs less than the “low cost” limit (\$10.20 for 2013), and
- c. The item was distributed accompanied by a request for a contribution in which a statement is made that the distributee may retain the article without making a contribution
- d. The donor is informed that any resulting contribution is fully tax deductible.

2. Rev. Proc. 92-49

The payment occurs in the context of a fund raising campaign in which the charity informs the patron of how much of their payment is deductible as a charitable contribution, and either of the following is true:

- a. The fair market value of all the benefits received in connection with the payment is not more than 2% of the payment or \$102.00 (for 2013), whichever is greater, or
- b. The payment is \$51.00 (for 2013) or more and the benefits are token items bearing our logo (bookmarks, calendars, key chains, mugs, posters, tee shirts, etc.) and the cost of all benefits do not exceed the low-cost item limit under § 513(h)(2), which is \$10.20 for 2013.

Other Information:

- An item’s “cost” is only allowed in determining whether it falls below the limit and can be disregarded. If the cost is more than the limit, then the donor benefit is valued at its “fair market value.” Example: The low-cost limit for 2013 is \$10.20. If you distribute a mug costing \$9.50 that would sell for \$15.00 in a store, it can be disregarded and the donation is fully deductible. If the same mug cost you \$11, donations would have to be reduced by \$15.00.
- If items or the services in connection with their production are donated in part or in full, the “cost” must be a reasonable estimate of the amount for which they could have otherwise been purchased.
- The IRS actually states the recommended verbiage to use in solicitations when insubstantial benefits are provided: “Under Internal Revenue Service guidelines the estimated value of the section 513(h) benefits received is not substantial; therefore the full amount of your payment is a deductible contribution.”

- Benefits provided by a charity in the form of cash or its equivalent will never be considered insubstantial.

Practical Hints

- Merely spending money for an item in the conduct of an event does not make it a benefit to the donor. For instance, invitations, postage, advertising and other similar costs can be ignored in the benefit computation.
- The amount you pay for a benefit may not directly relate to the value per donor. You may have a band that costs \$15 per attendee – or \$4 per attendee – that can command a \$10 per person cover charge. You would value the benefit at \$10.
- A meal for which a caterer charges \$25 that would cost \$40 in a classy setting might have a value of \$25 if the event is held in a campus building, but a value of \$40 if held at a place the caliber of the Jule Collins Smith Museum. In the case of the Museum, its rental and that of tables, chairs, linens, etc. would impact the value of the donor benefit.
- A “favor” with the logo on it that costs less than the low cost amount of \$10.20 given to attendees cannot be excluded because all the benefits together exceed \$10.20. The item’s cost cannot be used, but rather include it at fair value. If you believe that our cost also equals the item’s value, you should be able to justify it by having purchased it from a source that sells it for this price at retail. If not, value may be higher than our cost. An example would be purchasing shirts in quantity and having them screen-printed. Our bulk price per shirt might not be equivalent to what they would sell for individually in stores. Therefore, we would need to make a “good faith estimate” of what a shirt of comparable quality sells for in a book store or gift shop.
- A golf facility may charge \$65 for a round of golf with cart rental but charge different rates to charities to facilitate the event. The donor benefit should still be the facility’s normal charge.
- A donor may argue that he/she is a member of the club and can golf for free so his/her benefit should not include the green fee/cart. The IRS does not concur. The benefit for the tournament is the same for all.
- If a donor fails to attend an event, this does not make the payment for the ticket fully deductible. The donor had the right to attend, and hence received the benefit. Failure to use it does not convert the benefit to a donation. A prime aspect of a charitable donation is the “intent” to make a donation *at the time of payment*. If a donor opts out of receiving benefits when sending his/her check, the full amount can be deducted; otherwise, the benefits are provided whether used or not.

Golf Tournament Example #1

The golf tournament is held to provide scholarship funds. Donors receive a round of golf with a cart, a boxed lunch, a gift bag, and dinner and two drink tickets the night of the tournament. Entry fees are \$175 for an individual, \$700 for a 4-person team, and hole sponsorships are \$2,000, which includes a 4-person team. Tournament winners receive trophies, and all participants names are entered into a drawing for a series of prizes donated by local businesses.

Donor benefits: \$175 each, equal to the amount paid.

Whenever a prize drawing is held, the balance of the ticket over the value of tangible benefits received is considered the value of the chance to win a prize and there is no gift for the donor/purchaser.

Golf Tournament Example #2

The golf tournament is held to provide scholarship funds. Donors receive a round of golf with a cart, a boxed lunch, a gift bag, and dinner and two drink tickets the night of the tournament. Entry fees are \$175 for an individual, \$700 for a 4-person team, and hole sponsorships are \$2,000, which includes a 4-person team. Tournament winners receive trophies and the scholarships are awarded in their honor the next year. There is no drawing. Mulligans can be purchased for \$10.

The club normally charges \$55 for a round of golf with a cart, but is only charging \$35 for the tournament. The box lunch is the same lunch available in the clubhouse for \$7.50 (\$8 with sales tax). The gift bag contains only donated items: a pack of donated golf balls that would cost \$12 to buy, a donated golf towel worth about \$3, and various coupons, tees, pens, and other novelty items with a combined value \$2. It also contains a golf shirt that costs us \$24 to buy in quantity and on which we spend \$4 embroidering the school/college logo. Similar shirts with the AU logo sell for \$39.95 in bookstores (\$43 with tax). The dinner is catered in the student union and was contracted at \$35 each. With sales tax and gratuities of 27% (9% + 18%), the meal is valued at \$44. The bar is sponsored but the drink tickets are valued at \$5 each.

Donor benefits:

	<u>Cost</u>	<u>Value</u>
Round of Golf + Cart	\$ 35.00	\$ 55.00
Box Lunch	8.00	8.00
Golf Balls	-0-	12.00
Towel	-0-	3.00
Novelty Items	2.00	2.00
Shirt	28.00	43.00
Dinner	44.00	44.00
Drinks	-0-	10.00
	<u>\$ 117.00</u>	<u>\$ 177.00</u>

The donor benefit for a \$175 registration is \$177. There is no charitable component of the event for the individual or team registrations. Mulligans also confer a benefit, and are not charitable. However the event sponsors' payments of \$2,000 are recorded as gifts with a \$700 benefit (4 tickets @ \$175) and a \$1,300 gift. \$700 is used as the benefit instead of \$708 because they can register a team for \$700 and are voluntarily paying an extra \$1,300.

Golf Tournament Example #3

The Dean decides that the entry fee should be raised to \$250, teams to \$1,000 and sponsorships to \$3,000. Individual entry fees have a benefit of \$177 and a gift of \$73 and teams have a \$708 benefit and \$292 gift. Sponsorships have a benefit of \$708 and a gift of \$1,292.

Golf Tournament Example #4

Mega Donor calls you the week of the event and indicates that he will not be able to attend. He wants his receipt re-issued to show that he did not receive a benefit. You cannot do this, as he did receive the “benefit” but decided not to use it.

Golf Tournament Example #4

Mega Donor calls you the week of the event and indicates that he will not be able to attend. He wants his receipt re-issued to show that he did not receive a benefit. Event participation is limited to a set number and you have had the tournament spots full for a month with a waiting list of supporters who would like to participate. You can resell his ticket if he returns it. Record a gift-in-kind for the donated ticket.

Gala Example #1

A gala dinner is held to raise scholarship funds. Dinner tickets are \$100. A table for 8 can be purchased for \$1,000, which includes two drink tickets per seat. Donors each receive a Christmas ornament embossed with the school logo.

The dinner is catered in the student union and was contracted at \$25 each. A similar meal can be bought for \$25 at a number of local restaurants. With sales tax and gratuities of 27% (9% + 18%), the meal is valued at **\$32**. Drink tickets are valued at **\$5** each although most of the liquor is donated and will cost only \$2 per drink. Invitations cost \$3.50 each, plus \$1 each for a calligrapher to address them, and \$.45 postage. The ornaments cost \$5.49 (**\$6** with tax) in the college bookstore. A pianist is hired for \$100 to play during dinner, tables, chairs and linens are rented for \$15 per table, flower arrangements are donated for each table that the florist normally sells for \$15 each.

The donor benefits are the tangible items provided, as follows:

	<u>Cost</u>	<u>Value</u>
Dinner	\$ 32.00	\$ 32.00
Ornament	<u>6.00</u>	<u>6.00</u>
	<u>\$ 38.00</u>	<u>\$ 38.00</u>

Table sponsor payments of \$1,000 are recorded as gifts with a \$384 benefit (\$32 + \$6 + \$10 drink tickets x 8) and \$616 gift.

The ornament cannot be excluded under the rule disregarding benefits with the logo that cost \$10.20 or less because the total of all benefits exceed that amount.

No value to the donor is considered provided by the invitations, nor does the table rental and pianist have to be added, as they are not considered to add to the value of the meal.

Gala Example #2

A gala is held to provide scholarship funds. It is billed as a “Day at the Medieval Fair.” Cost is \$100, which includes admission for the all-day event, two drink tickets, all you can eat meals from a variety of “themed” food vendors. There are puppet shows, hair braiding, sketch artists, and various other demonstrations and entertainments. A well-known musician with ties to the university has agreed to give two free performances during the day.

The food is donated by various area restaurants and organizations. If purchased, the costs would range from \$5 through \$15 for the various entrees. Two all-you-can-eat meals is projected to be worth similar buffets priced at around \$14.95 for lunches and \$24.95 for nights, or **\$43** with tax. Drink tickets are valued at **\$5** each, but you will be billed \$2 each by the vendor providing the cash bar, who will charge \$5 per drink without the ticket. The printing of admission tickets was paid by a donor, and tickets contain a coupon on the back that can be redeemed for a free \$3 widgie-doodle at the donor’s business with a purchase of a meal. Pony rides, dance lessons, and skeet shooting are available for attendees. Admission to a similar commercial “fair” would cost **\$30**, but would not include the cost of food, skeet shooting or a concert. Skeet shooting is usually **\$7** for a round of 25 targets and most participants shoot at least twice. Tickets to hear the performer normally range from **\$35** and up, depending on the location of the seats.

Donor benefits:

	<u>Cost</u>	<u>Value</u>
Food	\$ -0-	\$ 43.00
Drink Tickets	8.00	10.00
Admission to “Fair”	-0-	30.00
Skeet Shooting	-0-	14.00
Concert	<u>-0-</u>	<u>35.00</u>
	<u>\$ 8.00</u>	<u>\$ 132.00</u>

There is no gift. Because of the donated nature of the benefits, the event will raise a lot of funds for the scholarship, but the price of admission is worth what the donor receives, so that none of it qualifies as charitable.