Do Your Part For Donors and protect your Organization: IRS Substantiation Rules Apply To Contributors

What is Required by the IRS?
For donors' charitable contributions to be eligible for deductions on their income tax returns, they must follow the IRS "substantiation rules." These requirements vary with the nature and amount of the donation, but clearly state that, if a taxpayer fails to meet the substantiation and recordkeeping requirements, no deduction will be allowed.

For cash gifts of under $250, a canceled check or credit card receipt is generally sufficient substantiation. If, however, any goods or services were provided in exchange for a cash gift of $75 or more, the charity must provide a contemporaneous written acknowledgment that includes a description and good-faith estimate of their value.

For cash gifts of $250 or more, as well as noncash gifts, the rules generally also require a contemporaneous written acknowledgment from the charity, which must include these four elements: 1) the donor's name, 2) the amount of cash or a description of the property contributed (separately itemized if one receipt is used to acknowledge two or more contributions), 3) a statement explaining whether the charity provided any goods or services in consideration, in whole or in part, for the gift, and 4) if goods or services were provided, a description and good-faith estimate of their value.

If the only benefit the donor received was an "intangible religious benefit," this must be stated. Goods or services of "insubstantial value," such as address labels or other small incentives in a fundraising campaign, do not need to be taken into account.

The requirements for noncash donations valued over $500 include attaching a completed Form 8283 to the donor's tax return and, if valued over $5,000, include obtaining a qualified appraisal of the donated property. Before you accept such donations, it may be wise to confirm with the donors that they are aware of the requirements and have obtained an appraisal, if necessary.

Quid Pro Quo
A donation at the end of the year might be your supporters' holiday gift to your not-for-profit. Make sure that you reciprocate by giving them credit and verifying that their donations are properly documented.

How can this affect your donors?
Your donors will be gearing up for tax-filing season soon. It is not too late to make sure that your organization is following the IRS donation "substantiation rules" to ensure your benefactors have the proof they need to deduct financial gifts. Proper documentation is also crucial so that your donors do not have any future problems with the IRS.

Legal Precedents Exist
Case law generally supports the IRS. In the court ruling Durden v. Commissioner, a church had received $25,171 in contributions from a married couple. The taxpayers had canceled checks documenting these 2007 donations, and the church sent them a written acknowledgment of receipt. But the acknowledgment did not note whether the taxpayers had received any goods or services in exchange for their contributions. The IRS requires such a statement, so it disallowed the taxpayers' deduction.

The taxpayers then obtained a second receipt from their church, stating that they had not received any goods or services in exchange for their donations. The second receipt was dated June 21, 2009, and the IRS rejected it for failing to meet the "contemporaneous" requirement, which requires the notification to be obtained at the time of the gift.

The taxpayers appealed the IRS decision. Concluding that the couple had "failed strictly or substantially to comply with the clear substantiation requirements of Section 170(f)(8)," the Tax Court upheld the IRS's disallowance of the deduction.