All About "Quid Pro Quo"

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When contributors receive something in return

Does your charity understand how to treat quid pro quo arrangements? "Quid pro quo" describes an arrangement in which a contributor gives money in exchange for something else. Whether it's a supporter buying a ticket for your charity ball or an attendee at your charity auction successfully bidding on a hotel stay, such situations create an obligation for your nonprofit.

Understanding the requirements

According to IRS rules, you may ignore contributions of less than $75, but if your not-for-profit receives more than $75 and provides a benefit to the donor, you must advise the donor that it's a quid pro quo contribution. With such contributions, donors can deduct only the amount they pay in excess of the value of the goods or services.

Additionally, the charity must put in writing the amount donated, the goods or services provided in return, and a good-faith estimate of their value. You must also provide written acknowledgment when the donation is solicited or when it's received.

If you're holding a musical performance for which tickets are sold, for example, each ticket should disclose the tax-deductible portion of the ticket price (in this case, the market value of a similar event in your area). You must make the disclosure in a readily visible format. You can find examples in IRS Publication 1771, Charitable Contributions - Substantiation and Disclosure Requirements.

Your organization could be penalized for failing to furnish the proper acknowledgment and disclosure. Fines are $10 per contribution, up to $5,000 for the fundraising event. If the contribution is $250 or more, failure to provide and describe a good-faith value of the benefit may cost the donor their contribution deduction.

Valuing the goods and services

A key task for the charity is to value the goods or services. An example: Your organization takes a group of supporters to a sporting event and pays for their tickets. The supporters then make large donations. Determining quid pro quo is fairly simple in such cases: The amount your
organization paid for the tickets would be considered the fair market value, and only the amount of the contributions *in excess of this value* would be a tax-deductible contribution for the donor.

It's not as easy when some of the items given away have been donated to your organization. Let's say, for instance, that your charity put on a one-day chocolate lovers' event with live chamber music. The hosting hotel charged you a reduced amount for the candy and desserts as its contribution, and the chamber quartet performed at no cost. To establish the value to be reported to the donor, you must determine what it would cost someone to attend a similar event. In this case, you might be able to find a comparable activity in a nearby community.

**Placing value on auctioned items**

All items auctioned at a charity auction (silent or regular) must have a value placed on them. The charity should ask the donor to put a value on the item unless it's readily apparent, such as with a $50 gift certificate. The value should be the amount that a willing buyer would pay for the item in an "arm's length" transaction - that is, in the marketplace.

The charity can then publish the item's value on bid cards or in a catalog of auction items. This serves as the acknowledgment, and the buyers will be entitled to a deduction for the amount paid *in excess of* that value.

**Understanding exceptions to the rule**

There are a few instances when quid pro quo reporting isn't necessary:

*Membership exception.* This exception happens when membership benefits (free admission or free parking, for example) are provided, but the annual membership fee is $75 or less.

*Token exception.* This exception takes place when a contribution is for $49.50 or more and the goods cost less than $9.90, or the value of the benefit to the donor doesn't exceed 2% of the donation or $99, whichever is less.

*Intangible religious exception.* This exception pertains to religious benefits, such as religious services or classes that are provided by an organization operated exclusively for religious purposes (excluding travel, education and consumer goods).

In other situations, it's safer to report quid pro quo than not.

**Subjective decisions**

Making decisions on the value of items you give to contributors in exchange for contributions often involves a degree of subjectivity - value is sometimes in the eye of the owner. If you have any disclosure or reporting questions concerning contributions to your nonprofit and quid pro quo arrangements, contact us at 301.986.0600.
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