

Dear Ask A Pro,

*If a professional association or group holds a fundraiser to benefit a nonprofit organization, can the benefitting charity issue tax receipts for auction items solicited for the event?*

*Example: the united shoe salesman association solicits donations for an auction to benefit the American Cancer Society. Can or should the American Cancer Society issue tax receipts for the items donated? What sort of documentation would be required?*

*Event Planner*

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Dear Event Planner,

All gifts should be acknowledged by the nonprofit and given appropriate recognition, including donations of goods and services, auction items, and even in kind services. Many of those items may qualify for a tax donation by the donor.

However, it is up to the donor to determine the fair market value or cost of the item. The charity should include a description of the item in their acknowledgment/thank you letter but can't issue a tax receipt or indicate how much if any amount qualifies as a tax deduction.

The IRS addresses this issue as follows:

In addition, donors who provide goods for charities to sell at an auction often ask the charity if the donor is entitled to claim a fair market value charitable deduction for a contribution of appreciated property to the charity that will later be sold. Under these circumstances, the law limits a donor's charitable deduction to the donor's tax basis in the contributed property and does not permit the donor to claim a fair market value charitable deduction for the contribution. Specifically, the Treasury Regulations under section 170 provide that if a donor contributes tangible personal property to a charity that is put to an *unrelated use*, the donor's contribution is limited to the donor's tax basis in the contributed property. The term *unrelated use* means a use that is unrelated to the charity's exempt purposes or function, or, in the case of a governmental unit, a use of the contributed property for other than exclusively public purposes. The sale of an item is considered unrelated, even if the sale raises money for the charity to use in its programs.

These gifts have tremendous value to your nonprofit so it is appropriate to give recognition to the donors and develop relationships with them as you would a regular annual fund donor, even though you are not providing

them with a receipt with a specific value for them to use for tax purposes. Also, every “donor” should be added to your donor base for future cultivation and stewardship.

While this was not part of your question, the purchaser of an auction item at your event may take a tax deduction for that part of their purchase that exceeds the fair market value. They will need certain information in order to make that determination. The nonprofit should request from the donor of the auction item, the fair market value of the item. In other words, what a person might be able to purchase the item for (retail) in a store or online. Only the amount of the auction purchase, above that amount, can be eligible as a charitable contribution and be claimed as a tax deduction by the winning bidder. The IRS is clamping down on people who claim as charitable gifts, what they paid for winning auction items. Therefore, it is especially important for your nonprofit to be able to provide the purchaser, with the fair market value. Don't wait until they are in a crisis need due to an audit.

Wishing you much success with your upcoming events,

Your Ask A Pro Team