

## Explanation of the IRS “Quid Pro Quo” Rule\*

as it applies to charities receiving financial gifts from donors.

### Charitable Contribution with **NO** Goods or Services Received in Return

The donor may make a contribution and not receive any tangible goods or services in return. If the contribution is less than \$250, the charity is not required to provide a letter reflecting the receipt of the gift and the donor may report the gift for a deduction. However, when the charity receives a contribution of \$250 or more without returning goods or services to the donor and the donor wishes to claim a deduction, the donor needs a letter from the charity stating the amount of the donation and that no goods or services were received. The charity is not legally required to give such an acknowledgement, but it is a good practice to provide it, even for a gift of less than \$250.

### Charitable Contribution with Goods or Services Received in Return

The charity is required to give a letter to the donor when the charity does provide goods or services in return for a contribution of more than \$75 (with exception to the *Low Cost Item Rule* or *Insubstantial Value Rule* as detailed below). If the charity fails to provide such a letter, the charity is subject to a penalty by the IRS.

### Low Cost Item Rule

When a donor makes a contribution to a charity and the charity returns goods or services, the donor can deduct only the amount that exceeds the fair market value of the goods or services they receive in return with the following exceptions:

*For 2019:*

- When the cost of a good or service is less than the *Low Cost Item Rule*, in this case less than \$11.10, and the contribution is \$55.50 (current amounts adjusted by IRS for inflation) or more, the donor may receive a full deduction of their contribution.
- When the cost of a good or service is more than the *Low Cost Item Rule*, in this case more than \$11.10, and the contribution is \$55.50 or more, the donor may receive a deduction of their contribution less the fair market value of the goods or services.
- When a contribution is less than \$55.50, the donor must subtract the fair market value of the goods or services (no matter what the cost of the item) from their contribution to determine the amount of their deduction.

### Federal Disclosure Rule Chart (Low Cost Item Rule)

The following chart provides guidance for Federal Disclosure rules for Nonprofit Organizations

Amount of Payment	Cost of Item	Acknowledgment	Example of Payment	Example of Fair Market Value	Deductible Tax Amount
> \$55.50	< \$11.10	Fully Deductible	\$90	Doesn't matter	\$90
> \$55.50	> \$11.10	Subtract the FMV	\$90	\$12.00	\$78.00
< \$55.50	Any value	Subtract the FMV	\$35	\$6	\$29

## Insubstantial Value Rule

In addition, there is an *Insubstantial Value Rule*, which provides that:

- A donor may claim the full amount as a charitable contribution deduction if the donor receives goods worth less than 2% of the gift or \$111 (indexed to inflation) whichever is less.
- For reference, please note  $\$5,550 \times 2\% = \$111$ .

### Federal Disclosure Rule Chart (Insubstantial Value Rule)

The following chart provides guidance for Federal Disclosure rules for Nonprofit Organizations

Amount of Payment	Example of Payment	Value of Goods Received	Acknowledgment	Deductible Tax Amount
< \$5,550	\$4,000	\$75 (less than 2% of \$4,000)	Fully Deductible	\$4,000
< \$5,550	\$4,000	\$120 (> \$111)	\$120 not Deductible	\$3,880
≥ \$5,550	\$6,000	\$120 (greater than 2% of \$5,500)	\$6,000 less Value (e.g., \$120)	\$5,880

**Goods or Services** -- “goods” are tangible items and “services” are a performance of duties.

**Letter** -- a written message addressed to the donor.

**Fair Market Value** -- The dollar value of goods or services based on the highest price that a buyer, willing but not compelled to buy, would pay, and the lowest a seller, willing but not compelled to sell, would accept.

**Low Cost Item** -- tangible items that cost less than \$11.10.

**Insubstantial Value** -- goods worth less than 2% of a gift or \$111 whichever is less.

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