



The Larned A. Waterman Iowa Nonprofit Resource Center

Helping strengthen community organizations

eNewsletter

Volume 10, Issue 4/Fall 2014

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We continue to work on restoring all features of the new INRC Web site. We apologize for any inconvenience and appreciate your patience. Please continue to check the site for changes and updates.

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Making Deductible Donations Work: The Basics

by Richard Koontz, INRC Director

Many people give their time and money to nonprofits in Iowa. And for many people the reward of giving to others is all that matters. Iowa thrives on the volunteer efforts of its citizens. But some people who give, in addition to their satisfaction in helping the community, want to have a tax deduction when they file their returns the following spring. In order to have a tax deductible contribution, there are a number of issues to be aware of.

Volunteer time

A donation of volunteer time is not a tax deductible event, not like gifts of cash or property which can be deductible. If you are an accountant, volunteer ten hours to provide accounting services to a nonprofit, and your normal billable hourly rate is \$200, there is a clear \$2,000 transfer of value to the charity. But that "transfer" of value is not an amount that can be deducted. If you want a deductible amount, you can send the charity a bill for the \$2,000 and then make a cash contribution of the \$2,000 back to the charity when you receive it. But this is not a transaction that alters tax liability, as an additional \$2,000 has come into your income, and the deduction takes \$2,000 out again.

There may be costs associated with a volunteer activity that are deductible. If you are a volunteer for a nonprofit that serves the elderly by driving them to doctor appointments and grocery shopping, then your transportation costs associated with that service (assuming it is your car and not the nonprofit's) are deductible. Actual costs of gas are

not covered. Instead there is a basic mileage deduction of 14 cents per mile. Keeping a mileage record is important if you want to deduct these amounts. Other out-of-pocket expenses are also deductible, though it is important to remember that the deduction is not available if you are reimbursed. For a good source on deductible expenses associated with volunteer activity, see the "Out of Pocket Expenses in Giving Services" section of IRS Publication 526 at <http://www.irs.gov/pub/irs-pdf/p526.pdf>.

A "Qualified" Organization

If you do make a contribution of cash or property to a nonprofit, it is deductible on your individual return, but only if the nonprofit is a "qualified" organization.

There are many kinds of tax exemptions in the U.S., but a donation made to a nonprofit exempt under Internal Revenue Code 501(c)(3) is one of the few kinds of exempt entities that qualify as a recipient of a tax deductible gift. (For other qualified organizations, see pages 2 and 3 of IRS Publication 526 at <http://www.irs.gov/pub/irs-pdf/p526.pdf>.)

Many nonprofits contribute important services to Iowa, but they are not exempt under 501(c)(3). There are Chambers of Commerce in many communities in Iowa, and they significantly promote the well-being of those communities. (For a list of chambers of commerce in Iowa, see <https://www.uschamber.com/chamber/directory>.) A contribution to a Chamber

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of Commerce is not deductible as Chambers are exempt under 501(c)(6), not 501(c)(3).

Just hearing that an organization is a “nonprofit” or “tax exempt” is not enough to determine if it is a qualified charity for tax deduction purposes. If you are not sure if an organization is exempt under 501(c)(3), ask to see the its determination letter from the IRS. The letter will tell what kind of exemption it has.

There are a few places to check online. The Iowa Secretary of State’s website has a searchable database of all nonprofits that have filed to become “nonprofit corporations”. See [http://sos.iowa.gov/search/business/\(S\(dc1rfcbfizyvlr45nqm13rux\)\)/search.aspx](http://sos.iowa.gov/search/business/(S(dc1rfcbfizyvlr45nqm13rux))/search.aspx).

Be aware that nonprofit corporations can be exempt under any of the more than two dozen forms of exemptions listed in Internal Revenue Code 501(c), and the organizations’ summaries on the Secretary of State’s site may not answer all of your questions.

A more thorough online source to determine tax exemption is Guidestar. The Guidestar site at <http://www.guidestar.org/> lists nonprofits that file the annual nonprofit tax return Form 990. You can search the database by nonprofit name and location. A summary of the charity tells you what kind of exemption it has. You can also view the Form 990. The top of the first page of the Form 990 also provides a summary of the charity.

What Guidestar does not have are the returns for smaller nonprofits, or those receiving under \$50,000 gross receipts annually. For those, see the IRS Exempt Organizations Select Check page at <http://www.irs.gov/Charities-&-Non-Profits/Exempt-Organizations-Select-Check>. On this site, you can even search under a tax deductible gifts qualification bar to make sure your potential donee organization can receive your gift.

Return Benefit

You have made a contribution of cash and it is definitely made to a 501(c)

(3) nonprofit. The question then can shift as to whether you got something in return, which may make this a purchase rather than a donation, or it may lessen the amount of the total gift that is deductible.

If an individual goes to a private nonprofit hospital, has open-heart surgery, and a payment of \$25,000 is made to the hospital (which we’ll assume is the going rate for such a surgery) that will not result in a donation. Why? Because the value of the services given was equal to the amount given to the hospital. The more common issue is whether you received something in return, but it was not equal in value to the amount given the charity. For instance, you make a \$100 donation to a symphony in your town. In return you are given a ticket to one of their concerts. If you had purchased the ticket, it would have been \$35. So the amount deductible is not the \$100 donation but the difference between that and the \$35 value returned, or \$65. To help donors realize what the difference is between the donation amount and the returned benefit, charities are required to send a “gift substantiation” letter. (See IRS Publication 1771 at <http://www.irs.gov/pub/irs-pdf/p1771.pdf>)

Other issues

There are a good number of other issues to consider when making a charitable gift you wish to deduct. One is the timing of the deduction. In what year is the gift deductible? If the gift is large it may exceed the percentage limitations described in the tax code (50 percent of AGI), and so some portion of it is carried forward into the next tax year. If you are giving property rather than cash, the “non-cash gifts” issues arise, most importantly how to value the gift in order to arrive at the deductible amount. Donations that seem to be charitable but are given to benefit a single individual or a political party are not deductible.

For more complex issues, you should consult an attorney or CPA regarding the tax consequences of your giving.

How to Keep Your Donors

This post by Simone Joyaux appeared on the Bloomerang blog (<https://Bloomerang.Co>) and is used with permission.

Fundraising is like any other business: customer loyalty is the Holy Grail.

The local butcher needs loyal customers to flourish. The baker requires repeat customers to stay open. And charities need loyal donors to survive and thrive.

That’s the job of fundraising: finding and retaining customers. We just call them donors. But they are customers just the same. And loyalty is what matters.

You keep your donors by focusing on them. First, you develop loyal donors by operating as a donor-centered organization. Next you launch a comprehensive relationship-building program to nurture the relationship.

Your relationship-building program includes two key elements: donor-centered communications and extraordinary experiences for those donors.

Operating as a donor-centered organization

Everyone understands the concept of customer-centered. It’s old news, really. So charities need to get up to speed and embrace donor-centrism. “Donor-centric” is another way of saying “building trust.” A donor’s relationship with your organization deepens or frays mostly based on how much trust you can create.

Trust that:

- Donors play an essential, vital, central role in your mission’s success.
- Your organization does worthwhile things with donor gifts.
- Your organization conducts its operations efficiently.

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Sadly most organizations focus on their own needs and why their good work requires donations. That's not good!

The donor-centered organization puts the donor at the center. "Because of your gifts, (organization) does this vital work." "Your gifts created a comfortable home for our elders." "With your gift our elders live dignified, secure, and healthy lives." "Because of you, the donor, (organization) challenges age discrimination in the Sudan."

What research says

To understand what donor-centered means, read Adrian Sargeant's research about what donors want. Sargeant found that the following matter in the fundraising relationship:

- Thanking donors for their gifts
- Informing donors how their money is spent
- Responding quickly when donors contact the organization
- Being polite in communications

Sargeant's research also tells us that the overall perception of service quality provided by the fundraising department dramatically affects donor retention.

Creating relationships that last

So first you behave in a donor-centered manner. Then you build relationships between the donor and the organization, the cause of elder rights and elder care. You engage donors in "a fight they can win." You make donors part of the team fighting to overcome discrimination against elders, fighting against the poverty of elders.

Remember: Your fundraising program must include a comprehensive relationship-building program. You cannot just solicit. You strengthen the relationship to retain the donor, to nurture loyalty.

Your relationship-building program includes two components: donor-cen-

tered communications and extraordinary experiences.

Donor-centered communications includes some form of regular donor newsletter. The donor is the hero in this newsletter. Of course, include a gift response mechanism. And if your donor-centered newsletter is truly donor-centered and really good, you can sometimes make more money there than in a direct mail letter.

But relationship building is more than the donor newsletter. Relationship building includes offering your donors some extraordinary experiences beyond the newsletter.

What's an extraordinary experience? Something that makes the donor feel special. A memorable moment that the donor describes to someone else. A chance to get closer to the cause.

Ask yourself – as a donor to some cherished cause – when did you feel like you mattered the most? When did you feel like a hero? When did your cherished cause offer you an extraordinary experience?

Consider experiences like these for your donors:

- Thank-you call from a board member
- Insider update gathering explaining how the organization spends donor money, describing your impact as a donor
- Gathering to talk with some of the beneficiaries that your gift helped
- Invitation to share your philanthropic story as a donor (Maybe this is published in the donor newsletter or annual report or posted on the website.)

Keep your donors by building relationships that last

Think about this statement from British architect Sir Denys Lasdun (1914-2001):

"Our job is to give the client not what he wants but what he never dreamed that he wanted; and when he gets it, he recognizes it as something he wanted all the time."

Just substitute "donor" for "client." Loyalty is the Holy Grail of fundraising. You produce that loyalty by operating as a donor-centered organization – and by executing a comprehensive relationship-building program that includes donor-centered communications and extraordinary experiences. Does your organization do that?

Simone Joyaux

Simone P. Joyaux, ACFRE and Principal at Joyaux Associates, is an internationally recognized consultant and speaker, described as "one of the most thoughtful, inspirational, and provocative leaders in the philanthropic sector." She's the author of three groundbreaking books, Strategic Fund Development; Keep Your Donors (with Tom Ahern); and Firing Lousy Board Members.

She is the recipient of the 2003 Rhode Island Outstanding Philanthropic Citizen Award. With more than 35 years of professional philanthropy experience, Joyaux has served as a chief development officer, executive director, and board chair.

Training Opportunities

INRC staff:

Richard Koontz

INRC Director

Brenda Steinmetz

Admin. Svcs. Coordinator

Diane DeBok

Editor & Content Manager

Charlene Onnen

Secretary

Nonprofit Management Academy

Combinations of courses may be taken for a certificate in nonprofit management. Co-sponsored by Iowa State University Extension & Outreach, Johnson County; Iowa State University Extension & Outreach, Linn County; the Larned A. Waterman Iowa Nonprofit Resource Center; and United Way of Johnson County.

Registration per course, \$70; CEUs, additional \$25. Classes meet Thursdays, 9 am - 4 pm at the Johnson County Extension Office, 3109 Old Highway 218 South, Iowa City.

For information and to register, contact Jacky Cole at 319-337-2145 or by email at jkcole@iastate.edu.

September 18

Organizational Planning

Instructor: Regenia Bailey, Bailey Leadership Initiative, LLC

October 9

Legal Perspectives on Organizing Nonprofits: Principles & Procedures

Instructor: Richard Koontz, Larned A. Waterman Iowa Nonprofit Resource Center

October 30

The Secrets of a Successful Development Plan

Instructor: Jody Ruff, Xavier High School Foundation

November 13

Diversity in Your Community

Instructor: Paul Retish, University of Iowa College of Education

Finding & Retaining Donors

Speaker Chris Painchaud, Regional Sales Account Executive at Bloomerang, will focus on the Fundraising Effectiveness Project report and the principles of Dr. Adrian Sargeant, renowned authority on building donor retention and loyalty.

Sponsored by the Larned A. Waterman Iowa Nonprofit Resource Center and the Association of Fundraising Professionals of Eastern Iowa.

Date: Friday, September 12

Time: 9 a.m. - Noon

Cost: \$30; \$20 for AFP members

Location: Iowa Room, University Club, 1360 Melrose Ave., Iowa City.

For information: 866-500-8980 (toll free) or 319-335-9765

Information and registration form.

Starting an Iowa Charitable Nonprofit

INRC Director Richard Koontz will explain steps required for starting a charitable nonprofit organization. Session covers the IRS Form 1023 Application for Exemption; the new 1023-EZ; articles of incorporation; by-laws; and more.

Date: Saturday, October 4

Time: 9 am - 4 pm

Cost: \$50, payable by check only.

Location: Rm 265, Boyd Law Bldg., University of Iowa College of Law, Iowa City,

For information: 866-500-8980 (toll free) or 319-335-9765

Information and registration form.

About Our Organization

The Larned A. Waterman Iowa Non-profit Resource Center is a University of Iowa interdisciplinary collaboration created to make more accessible educational and service programs focused on strengthening the operational capacity of Iowa nonprofit organizations.

The INRC works collaboratively with government agencies, nonprofit organizations and educational institutions to impart new knowledge through activities and provide

information and training resources to help nonprofit organizations and interested persons throughout Iowa. We seek to build the capacity and develop the effectiveness of community-based organizations and enhance the overall effectiveness of local organizations in building communities.

The INRC also introduces students to the nonprofit sector and develops their sense of public and community service.

Legal Disclaimer:

All newsletter content is provided for informational purposes only and does not constitute legal counsel.

Although we have made every attempt to ensure accuracy, the INRC is not responsible for any errors or omissions or for the results obtained from the use of this information. All information is provided with no warranty of any kind.



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