Charitable 501(c)(3) organizations must meet inspection and disclosure requirements

Charitable organizations enjoy significant benefits, such as receiving tax-deductible contributions and not having to pay taxes on income.

In return, Congress allows the public to inspect documents (such as the Form 990 or 990-EZ) that these organizations file with the IRS. These forms – which report gross receipts, expenses, etc. – are information returns and do not report paying taxes.

In addition, the public can review an organization's original application for recognition of tax-exempt status, any documents filed with the application, and any correspondence between the organization and the IRS regarding the application.

The public can also inspect a charitable organization's Form 990-T, the tax return filed by organizations that receive unrelated business income of more than $1,000 annually.

In addition to disclosing annual returns and applications for exemption, 501(c)(3) organizations must make certain disclosures to donors to whom something has been given in return for their contributions. This is called a *quid pro quo* contribution, which in Latin means "something for something."

For example, suppose a donor gives a charitable organization $100. As an incentive or thank-you, the organization sends the person a concert ticket with a fair market value of $40.

The donor's tax deduction in this transaction may not exceed $60. In this case, the donor's payment exceeds $75, requiring the charitable organization to furnish a disclosure statement to the donor, even though the deductible amount does not exceed $75.

The disclosure must:

- Be in a written statement that is likely to come to the attention of the donor
- Be provided at the time the contribution is solicited or when the payment is received
- Inform the donor that the amount of the contribution deductible for federal income tax purposes is limited to the excess of the amount of money and the value of any property contributed by the donor over the value of goods or services provided by the organization

- Provide the donor with an estimate of the fair market value of the goods or services provided by the organization

If an organization fails to meet the written disclosure requirement, a penalty of $10 per contribution, up to $5,000 per fundraising event or mailing, may be assessed.

In addition to the public inspection and *quid pro quo* contribution disclosure requirements, if a charity offers to sell goods or services that are available free from the federal government, it must disclose that fact in a recognized format.

For more information on this or other IRS topics, go to IRS.gov.

Helpful topics:

- Publication 1771, *Charitable Contributions – Substantiation and Disclosure Requirements*
- Tax Information for Charities & Other Non-Profits
- Exempt Organization Public Disclosure and Availability Requirements
- Subscribe to IRS free exempt organization newsletter, the *EO Update*
- Review phone forum presentations on tax-exempt issues