

# WHITLEY PENN LLP

## UNITED WAY EXECUTIVE FINANCE SEMINAR


### “SPECIAL EVENTS”

Tony Hausler, Partner  
Curtis Maxfield, Senior Manager  
Karanae Barrey, Manager  
Annette Oknefski, Manager

March 28, 2011

**LIVE UNITED**



WHITLEY  PENN LLP

CPAs & Professional Consultants  
CERTIFIED & LICENSED ACCOUNTANTS

# WHITLEY PENN TEAM MEMBERS



***Tony Hausler***  
***Engagement Partner***  
***Assurance and Advisory Services***

#### **Education & Experience**

- B.B.A. in Accounting, University of North Texas, 1980, Cum Laude
- Certified Public Accountant
- Thirty years of auditing experience and the last sixteen years auditing not-for-profit organizations
- Champlin Refining and Chemicals, Inc. (Director of Internal Audit)
- Ernst & Young LLP Alumni (Senior Manager)

#### **Professional & Civic Organizations**

- American Institute of Certified Public Accountants (AICPA)
- Texas Society of Certified Public Accountants (TSCPA)
- Former member of board of directors of Hill School of Fort Worth
- Former member of board of directors and treasurer of Cassata Learning Center
- Former member of Entrepreneurship Institute of Tarrant County advisory board

# WHITLEY PENN TEAM MEMBERS



***Curtis Maxfield***  
***Senior Manager***  
***Tax and Consulting Services***

**Education & Experience**

- Bachelor of Science in Accounting, Master of Accountancy, Brigham Young University, 1999
- Certified Public Accountant
- Twelve years of public accounting experience providing tax consulting and compliance services to middle-market companies and not-for-profit organizations
- PricewaterhouseCoopers LLP Alumni (Director)

**Professional & Civic Organizations**

- American Institute of Certified Public Accountants (AICPA)
- Texas Society of Certified Public Accountants (TSCPA)
- BYU Management Society

# WHITLEY PENN TEAM MEMBERS



***Karanae Barrey***  
***Engagement Manager***  
***Assurance and Advisory Services***

#### **Education & Experience**

- B.S. in Accounting, Texas Christian University , 2002
- Certified Public Accountant
- Nine years auditing experience of middle market companies, not-for-profit organizations, and employee benefit plans.
- International Secondment Program: A program designed to allow participants the opportunity to gain experience in different countries through professional and person skill development in an international environment. (Australia 2007)

#### **Professional & Civic Organizations**

- Texas Society of Certified Public Accountants (TSCPA)
- Fort Worth Chapter of the Texas Society of Certified Public Accountants
- American Institute of Certified Public Accountants (AICPA)
- Vice President for the American Society of Women Accountants, Fort Worth Chapter
- Texas Christian University BNSF Next Generation Leadership Program: Program designed to aid specific student in networking skills and person development

# WHITLEY PENN TEAM MEMBERS



***Annette Oknefski***  
***Manager***  
***Tax and Consulting Services***

**Education & Experience**

- B.B.A. in Accounting, Texas Tech University, 2002
- M.S. in Taxation, Texas Tech University, 2003
- Certified Public Accountant
- Three years of public accounting experience providing tax consulting and compliance services to middle-market companies and not-for-profit organizations
- Three years experience providing transaction tax consulting and audit defense services

**Professional & Civic Organizations**

- Texas Society of Certified Public Accountants (TSCPA)
- American Institute of Certified Public Accountants (AICPA)

# Course Outline

- **Special Events Defined**
- **GAAP Accounting**
  - Financial Statement Treatment
  - Revenue Recognition
  - Financial Statement Examples
  - Donated Materials for Special Events
- **Tax Accounting**
  - Schedule G of Form 990
  - Common Reporting Questions
- **Donor Considerations**
- **Questions**

# Special Events

- Special event contributions can result from “special events” such as fund-raising dinners, benefit concerts, theater parties, and sports events, or by “sales” of items.
- Special events generate both revenue from the exchange transaction (the “sale”) of goods or services and support from the excess price charged, which represents a contribution.
- In some fundraising or joint activities, the attendee receives a direct benefit. These result in special revenue recognition treatment
  - i.e. a meal, theater tickets, chance to win a car, etc.

# Financial Statement Treatment

- According to FASB ASC 958-225-45, *Financial Statements of Non-for-Profit Organization*, the statement of activities should report the **GROSS** amounts of revenues and expenses when the special events are ongoing and major activities.
- If event is incidental, cost can be netted against receipts, but generally are limited to direct costs.
- What is considered an ongoing activity?
  - Annual dinner, annual golf tournament, etc.
    - Key words – “Annual”
- Incidental activities are activities in which the primary activity generates an offsetting benefit.

# Revenue Recognition

The portion of a special event payment that is a contribution is recognized as contribution revenue. The costs of direct benefits to donors portion that is an exchange transaction is recognized after the special event takes place.

If a special event has not taken place before the end of the fiscal year, the exchange portion of the payment should be classified as deferred revenue in the statement of financial position.

If the contribution is NOT conditioned on the event taking place, it should generally be recognized as revenue when received before year-end.

# Financial Statement Examples

- **Case Studies Handouts**
  - Page 1 states the assumptions
  - Page 2-3 include Cases A, B, and C,

*Case studies were obtained from Accounting Research Manager and also presented in the AICPA NPO  
Accounting Guide*

# Donated Materials

Contributions of gifts-in-kind (tickets, gift certificates, or merchandise) that are used for fund-raising purposes, should be recognized as a contribution and measured at fair value at the date of donation. The difference between the fair value of the contribution and the amount received from the purchaser should be recognized as an adjustment to the original contribution amount.

Examples: Donated auction and/or raffle items

# Donated Materials (continued)

i.e. Organization received a watch valued at \$500. The watch was sold at auction for \$750. The journal entries:

## *Initial contribution*

Asset	\$500	
Contribution revenue		\$500

## *Subsequent Sale at Auction*

Cash	\$750	
Asset		\$500
Contribution revenue		\$250

Watch was sold for \$250 instead of \$750

## *Subsequent Sale at Auction*

Cash	\$250	
Contribution revenue	\$250	
Asset		\$500

# Schedule G

Schedule G of Form 990, *Supplemental Information Regarding Fundraising or Gaming Activities*, is used to report professional fundraising services, fundraising events, and gaming activities.

Schedule G is required if any of the following questions is answered yes:

- Form 990, Part IV, Line 17 – Did the organization report a total of more than \$15,000 of expenses for professional fundraising services on Part IX, Lines 6 and 11e?
- Form 990, Part IV, Line 18 – Did the organization report more than \$15,000 total of fundraising event gross income and contributions on Part VIII, Lines 1c and 8a?
- Form 990, Part IV, Line 19 – Did the organization report more than \$15,000 of gross income from gaming activities on Part VIII, Line 9a?

# Schedule G, Part I – Fundraising Activities

Organizations filing Form 990-EZ are not required to complete Part I.

Professional Fundraising Activities include:

- Publicizing and conducting fundraising campaigns
- Maintaining donor mailing lists
- Conducting fundraising events
- Preparing and distributing fundraising manuals, instructions, and other materials
- Conducting other activities involved with soliciting contributions from individuals, foundations, businesses, governments, etc.

# Schedule G, Part I – Fundraising Activities

## Line-by-Line Instructions:

**Line 1: Type of Fundraising Activities** – Indicate each type of fundraising activity used by the organization. Check all that apply.

**Line 2a: Written or Oral Agreements** – Check yes if the organization had an agreement at any time during the year with a person or entity in connection with professional fundraising services.

**Line 2b: Ten Highest Paid Fundraisers** – List fundraisers that were compensated at least \$5,000 during the year.

**Line 3:** List the states in which the organization is registered or licensed to solicit contributions or has been notified it is exempt from registration or licensing.

# Schedule G, Part II – Fundraising Events

The purpose of fundraising events is to raise funds for the organization by selling goods and/or services for more than their direct costs.

Only events with gross receipts greater than \$5,000 need to be reported on Schedule G, Part II.

## Examples of Fundraising Events:

- Dinners and/or dances
- Concerts
- Sporting events
- Auctions
- Door-to-door sales of merchandise

# Schedule G, Part II – Fundraising Events

## Line-by-Line Instructions:

**Line 1: Gross Receipts** – Report the gross amount the organization received, without subtracting any costs, expenses, or charitable contributions received in connection with the event.

**Line 2: Less: Charitable Contributions** – Report the total of contributions, gifts, and similar amounts received by the organization.

**Line 3: Gross Income**

**Line 4: Cash Prizes** – Include gift certificates

**Line 5: Noncash Prizes** – Report at FMV

**Line 6: Rent/Facility Costs** – Report expenses related to the rent or lease of the property or facilities used for the event.

# Schedule G, Part II – Fundraising Events

## Line-by-Line Instructions, continued:

Line 7: Food and Beverages – Include the expenses for food and beverages, such as catering costs

Line 8: Entertainment – Include the expense related to entertainment at the event, including related labor and wages

Line 9: Other Direct Expenses – Include all other direct expenses related to the fundraising event, such as compensation paid to fundraising event workers or to independent contractors

Line 10: Direct Expense Summary

Line 11: Net Income Summary

# Schedule G, Part III – Gaming

## Types of Gaming Activities:

- **Bingo** – a game in which wagers are placed, winners are determined, and prizes or other property are distributed in the presence of all persons placing wagers in the game.
- **Pull-Tabs/Instant Bingo/Progressive Bingo** – a game in which an individual places a wager by purchasing pre-printed cards that are covered with pull-tabs. The games can be conducted in many different places simultaneously and the winners are not all present when the wagers are placed, winners are determined, and the prizes are distributed.
- **Other Gaming Activities** – such as raffles

# Schedule G, Part III – Gaming

## Line-by-Line Instructions:

**Line 1: Gross Revenue** – Report the gross revenue received from gaming for each type of gaming conducted without reduction for cash or noncash prizes, cost of goods sold, compensation, fees, or other expenses.

**Line 2: Cash Prizes**

**Line 3: Noncash Prizes** – Report at FMV

**Line 4: Rent/Facility Costs** – Report expenses related to the rent or lease of the property or facilities used for the activity.

**Line 5: Other Direct Expenses** – Report all other direct expenses not included in lines 2-4, including labor costs and wages as well as employer's share of employment taxes.

# Schedule G, Part III – Gaming

## Volunteer Labor

- If substantially all of the organization’s work is performed by volunteers, check “Yes” and enter the percentage of total workers who are volunteers for each type of gaming conducted.
- The percentage of volunteer labor determines if the gaming activity income is considered Unrelated Business Income.
- Any activity in which “substantially all” of the work is performed by unpaid volunteers is not an unrelated trade or business.
- Paid staff of the organization may be involved as long as sufficient volunteer effort is also present.

# Common Reporting Questions

## Charitable Contribution v. Fundraising Income

- In general, if a donor pays more than the FMV for a ticket to a fundraising event, the excess of the amount paid over the ticket's FMV is considered a charitable contribution.
- For example, an organization sponsors a concert as a fundraising event and sells tickets for \$100 each. A ticket for this concert normally costs \$25 each. The \$75 difference between the organization's \$100 ticket prices and the \$25 FMV of the concert is considered a charitable contribution.

# Common Reporting Questions

## Accounting for Auctions

- If an auction item is sold for more than the FMV, the excess is considered a charitable contribution and is reported on Form 990, Part VIII, Line 3.
- If an auction item is sold for less than the FMV, no part of the selling price is considered a charitable contribution.
- On the Schedule G, Part II, the FMV of the auction item that is sold is considered a direct expense and reported as a noncash prize.

# Common Reporting Questions

## Accounting for Raffles

- Raffles are considered a gaming activity and should be reported on Schedule G, Part III, Column C.
- Example:
  - An organization is raffling off a vehicle, and people can enter the raffle by buying tickets for \$10 each. The vehicle is valued at \$25,000 and was donated to the organization by a local dealer.
  - The organization sold 5,000 tickets for \$50,000. It also received \$1,500 from donors that gave less than the \$10 ticket price.
  - The organization had direct expenses of \$9,000 related to advertising and printing.

# Common Reporting Questions

## Contemporaneous Acknowledgement for Contributions of \$250 or More

- If the donor wants to claim a charitable deduction on his tax return, he must obtain contemporaneous, written acknowledgement of the contribution from the recipient organization.
- In order for the acknowledgement to be considered contemporaneous, the donor must receive it by the earlier of the date on which the donor actually files his tax return or the due date of the tax return (including extensions).

# Common Reporting Questions

## Contemporaneous Acknowledgement for Contributions of \$250 or More, continued...

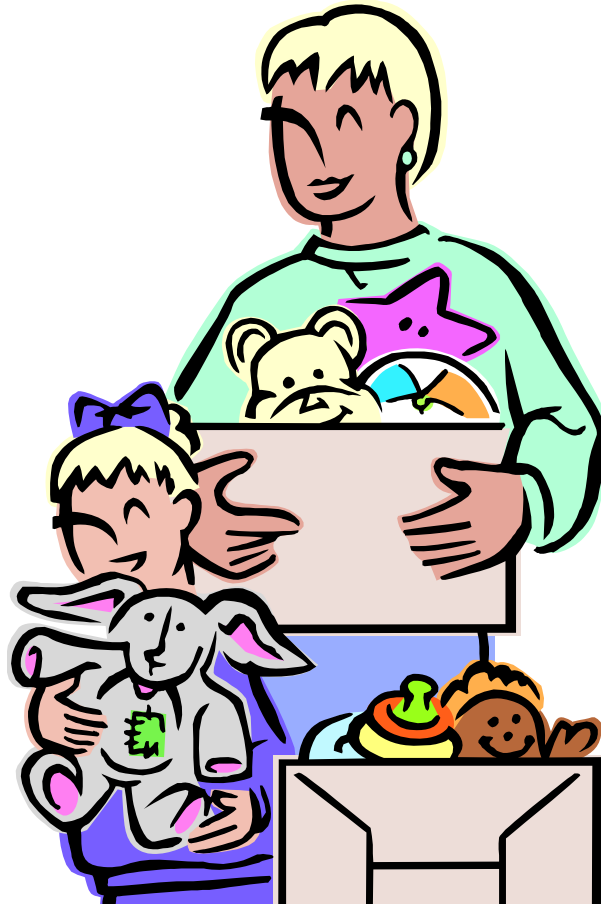
- The organization is not penalized by the IRS for not providing contemporaneous, written acknowledgement to the donors.
- The organization should provide the donor with the following:
  - Name of Organization
  - Amount of Cash Contribution
  - Description of Non-Cash Contribution (not value)
  - Statement that no goods or services were provided by the organization in return for the contribution (if applicable)
  - Description and good faith estimate of the value of goods or services the organization provided to the donor in return for the contribution (if applicable)

# Common Reporting Questions

## Quid Pro Quo Contributions

- Form 990, Part V, Line 7a: Did the organization receive a payment in excess of \$75 made partly as a contribution and partly for goods and services provided to the payor?
- Contributions to the organization are only deductible to the extent a gift's value exceeds the value of any goods or services the donor receives in return.
- For donations in excess of \$75, the organization must provide the donor with a written statement indicating the donor's deduction is limited to the excess of the contribution over the value of any goods or services received in return. The statement must include a good faith estimate of the value of goods and services.

# Donor Considerations



# Donated Property

How are donated materials reported for tax purposes?

- Generally, similar to financial reporting, contributions of gifts-in-kind (tickets, gift certificates, or merchandise) are recognized at fair value.

Tax treatment to donor?

- Donations of property to a qualified organization generally qualify for a deduction equal to the fair market value of the property at the time of the contribution.

# Form 8283

Form <b>8283</b> (Rev. December 2006) Department of the Treasury Internal Revenue Service	<b>Noncash Charitable Contributions</b>	OMB No. 1545-0008
	▶ <b>Attach to your tax return if you claimed a total deduction of over \$500 for all contributed property.</b> ▶ <b>See separate instructions.</b>	Attachment Sequence No. <b>155</b>
Name(s) shown on your income tax return		Identifying number

**Note.** Figure the amount of your contribution deduction before completing this form. See your tax return instructions.

**Section A. Donated Property of \$5,000 or Less and Certain Publicly Traded Securities**—List in this section **only** items (or groups of similar items) for which you claimed a deduction of \$5,000 or less. Also, list certain publicly traded securities even if the deduction is more than \$5,000 (see instructions).

**Part I Information on Donated Property**—If you need more space, attach a statement.

1	(a) Name and address of the donee organization	(b) Description of donated property (For a donated vehicle, enter the year, make, model, condition, and mileage, and attach Form 1098-C if required.)
A		
B		
C		
D		
E		

**Note.** If the amount you claimed as a deduction for an item is \$500 or less, you do not have to complete columns (d), (e), and (f).

	(c) Date of the contribution	(d) Date acquired by donor (mo., yr.)	(e) How acquired by donor	(f) Donor's cost or adjusted basis	(g) Fair market value (see instructions)	(h) Method used to determine the fair market value
A						
B						
C						
D						
E						

**Part II Partial Interests and Restricted Use Property**—Complete lines 2a through 2e if you gave less than an entire interest in a property listed in Part I. Complete lines 3a through 3c if conditions were placed on a

# Form 8283

## What is it used for?

Form 8283 is used by a donor to provide information to the IRS about non-cash charitable contributions in excess of \$500. The form is attached to the donor's tax return.

When the fair market value of donated property exceeds \$5,000, the donor will provide this Form to the organization.

### *Exception:*

- Publicly traded securities

# Form 8283

## What does my organization do with it?

When the organization receives Form 8283 from a donor, it acknowledges receipt of the donated property by signing and providing the requested information at the bottom of page 2 (Section B, part IV). This acknowledgement also identifies whether the organization intends to use the property for a *related use*.

This acknowledgement is merely an acknowledgement of receipt of the property described in Section B of the form, and does not certify or represent agreement with the claimed value on the form.

*Note:* With certain exceptions, items reportable in Section B require a written appraisal by a qualified appraiser.

# Form 8283

**Part II Taxpayer (Donor) Statement**—List each item included in Part I above that the appraisal identifies as having a value of \$500 or less. See instructions.

I declare that the following item(s) included in Part I above has to the best of my knowledge and belief an appraised value of not more than \$500 (per item). Enter identifying letter from Part I and describe the specific item. See instructions. ▶ \_\_\_\_\_

Signature of taxpayer (donor) ▶ \_\_\_\_\_

Date ▶ \_\_\_\_\_

**Part III Declaration of Appraiser**

I declare that I am not the donor, the donee, a party to the transaction in which the donor acquired the property, employed by, or related to any of the foregoing persons, or married to any person who is related to any of the foregoing persons. And, if regularly used by the donor, donee, or party to the transaction, I performed the majority of my appraisals during my tax year for other persons.

Also, I declare that I hold myself out to the public as an appraiser or perform appraisals on a regular basis; and that because of my qualifications as described in the appraisal, I am qualified to make appraisals of the type of property being valued. I certify that the appraisal fees were not based on a percentage of the appraised property value. Furthermore, I understand that a false or fraudulent overstatement of the property value as described in the qualified appraisal or this Form 8283 may subject me to the penalty under section 6701(a) (aiding and abetting the understatement of tax liability). In addition, I understand that a substantial or gross valuation misstatement resulting from the appraisal of the value of the property that I know, or reasonably should know, would be used in connection with a return or claim for refund, may subject me to the penalty under section 6895A. I affirm that I have not been barred from presenting evidence or testimony by the Office of Professional Responsibility.

**Sign**

**Here**

Signature ▶ \_\_\_\_\_

Title ▶ \_\_\_\_\_

Date ▶ \_\_\_\_\_

Business address (including room or suite no.) \_\_\_\_\_

Identifying number \_\_\_\_\_

City or town, state, and ZIP code \_\_\_\_\_

**Part IV Donee Acknowledgment**—To be completed by the charitable organization.

This charitable organization acknowledges that it is a qualified organization under section 170(c) and that it received the donated property as described in Section B, Part I, above on the following date ▶ \_\_\_\_\_

Furthermore, this organization affirms that in the event it sells, exchanges, or otherwise disposes of the property described in Section B, Part I (or any portion thereof) within 3 years after the date of receipt, it will file Form 8282, Donee Information Return, with the IRS and give the donor a copy of that form. This acknowledgment does not represent agreement with the claimed fair market value.

Does the organization intend to use the property for an unrelated use? . . . . .  Yes  No

Name of charitable organization (donee) \_\_\_\_\_

Employer identification number \_\_\_\_\_

Address (number, street, and room or suite no.) \_\_\_\_\_

City or town, state, and ZIP code \_\_\_\_\_


Authorized signature \_\_\_\_\_

Title \_\_\_\_\_

Date \_\_\_\_\_

 Printed on Recycled Paper

Form **8283** (Rev. 12-2000)

WHITLEY  PENN. LLP

CPAs & Professional Consultants  
CERTIFIED FINANCIAL PLANNERS

WHITLEY PENN. LLP

# Form 8283

## Definitions

Related use – The use of the property is related to the exempt purpose of the organization. The use of proceeds from the sale of donated property in the exempt purpose does not qualify as *related use*.

# Form 8282

<b>Form 8282</b> (Rev. April 2009) Department of the Treasury Internal Revenue Service	<b>Donee Information Return</b> (Sale, Exchange, or Other Disposition of Donated Property)	OMB No. 1545-0008
	▶ See Instructions.	<b>Give a Copy to Donor</b>

## Parts To Complete

- If the organization is an **original donee**, complete *Identifying Information*, Part I (lines 1a–1d and, if applicable, lines 2a–2d), and Part III.
- If the organization is a **successor donee**, complete *Identifying Information*, Part I, Part II, and Part III.

## Identifying Information

<b>Print or Type</b>	Name of charitable organization (donee)	Employer identification number :
	Address (number, street, and room or suite no.) (or P.O. box no. if mail is not delivered to the street address)	
	City or town, state, and ZIP code	

## Part I Information on ORIGINAL DONOR and SUCCESSOR DONEE Receiving the Property

1a Name of original donor of the property	1b Identifying number(s)
1c Address (number, street, and room or suite no.) (P.O. box no. if mail is not delivered to the street address)	
1d City or town, state, and ZIP code	

**Note.** Complete lines 2a–2d only if the organization gave this property to another charitable organization (successor donee).

2a Name of charitable organization	2b Employer identification number :
2c Address (number, street, and room or suite no.) (or P.O. box no. if mail is not delivered to the street address)	
2d City or town, state, and ZIP code	

## Part II Information on PREVIOUS DONEES. Complete this part only if the organization was not the first donee to receive the property. See the instructions before completing lines 3a through 4d.

3a Name of original donee	3b Employer identification number :
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# Form 8282

## What is it used for?

Form 8282 is used to report information to the IRS and donors about dispositions of certain *charitable deduction property* made within 3 years after the donor contributed the property.

### *Charitable deduction property –*

For purposes of reporting on form 8282, charitable deduction property is any donated property (other than money and publicly traded securities) if the claimed value exceeds \$5,000 per item or group of similar items donated by the donor to one or more donee organizations.

# Form 8282

## What does the organization do with it?

When the organization disposes of property within 3 years of receipt, this form must be provided by the organization to both the IRS and the original donor.

If the property is transferred to another charitable organization, Form 8282 must be provided to the successor donee.

Providing this form puts the IRS and the donor on notice that the original contribution may not qualify as a deduction for the full fair market value of the property. The key is the *related use*.

# Form 8282

Form 8282 (Rev. 4-2000)

Page 2

## Part III Information on DONATED PROPERTY

	1. Description of the donated property sold, exchanged, or otherwise disposed of and how the organization used the property. (If you need more space, attach a separate statement.)	2. Did the disposition involve the organization's entire interest in the property?		3. Was the use related to the organization's exempt purpose or function?		4. Information on use of property. <ul style="list-style-type: none"> <li>If you answered "Yes" to question 3 and the property was tangible personal property, describe how the organization's use of the property furthered its exempt purpose or function. Also complete Part IV below.</li> <li>If you answered "No" to question 3 and the property was tangible personal property, describe the organization's intended use (if any) at the time of the contribution. Also complete Part IV below, if the intended use at the time of the contribution was related to the organization's exempt purpose or function and it became impossible or infeasible to implement.</li> </ul>
		Yes	No	Yes	No	
A						
B						
C						
D						

		Donated Property			
		A	B	C	D
5	Date the organization received the donated property (MM/DD/YY)	/ /	/ /	/ /	/ /
6	Date the original donee received the property (MM/DD/YY)	/ /	/ /	/ /	/ /
7	Date the property was sold, exchanged, or otherwise disposed of (MM/DD/YY)	/ /	/ /	/ /	/ /
8	Amount received upon disposition	\$	\$	\$	\$

## Part IV Certification

You must sign the certification below if any property described in Part III above is tangible personal property and:

- You answered "Yes" to question 3 above, or
- You answered "No" to question 3 above and the intended use of the property became impossible or infeasible to implement.

# Use of Property

## Reporting contributions of the use of property?

Generally, a donor cannot deduct a charitable contribution of less than his/her entire interest in property. A contribution of the right to use property is a contribution of less than your entire interest in that property and is not deductible.

### Exceptions...

- A remainder interest in a personal home or farm;
- A partial interest that would be deductible if transferred to certain types of trusts;
- A qualified conservation contribution.

# Use of Property (Continued)

## Examples...

1. Bobby owns a 10-story office building and donates rent-free use of the top floor to a charitable organization.
2. Mandy owns a vacation home at the beach that she sometimes rents to others. For a fund-raising auction at her church, she donated the right to use the vacation home for 1 week. At the auction, the church received and accepted a bid from Lauren equal to the fair rental value of the home for 1 week.

# Use of Property (Continued)

## Examples...

1. Bobby owns a 10-story office building and donates rent-free use of the top floor to a charitable organization.

*This is a contribution of a partial interest in the property for which a contribution deduction cannot be claimed.*

2. Mandy owns a vacation home at the beach that she sometimes rents to others. For a fund-raising auction at her church, she donated the right to use the vacation home for 1 week. At the auction, the church received and accepted a bid from Lauren equal to the fair rental value of the home for 1 week.

*Mandy cannot claim a deduction because of the partial interest rule. Lauren cannot claim a deduction either, because she received a benefit equal to the amount of her payment.*

# Donated Services

What about donated services?

**While the reasonable fair value of donated services may be reported as contribution revenue on the books, the value will not be reported as revenue for tax reporting, nor will the donor receive a charitable tax deduction for time or services.**

# Unrelated Business Income

## Qualified sponsorship payments

A payment to an exempt organization by a person engaged in a trade or business, for which there is no arrangement for or expectation of a substantial return benefit other than the use or acknowledgment of the name or logo or product lines of the sponsor.

## Substantial return benefit

Any benefit *other than*: (a) goods, services or other benefits of insubstantial value that are disregarded, or (b) a use or acknowledgment.

# Unrelated Business Income

## Substantial return benefit (continued...)

Benefits provided to the payor or persons designated by the payor may include:

1. Advertising;
2. An exclusive provider arrangement;
3. Goods, facilities, services or other privileges;
4. An exclusive or nonexclusive right to use an intangible asset, such as a trademark, patent, logo, or designation of the exempt organization

# Unrelated Business Income

## Substantial return benefit (continued...)

**Illustration 1:** N, an art museum, organizes an exhibition and receives a large payment from a corporation to help fund the exhibition. N recognizes the corporation's support by using the corporate name and established logo in materials publicizing the exhibition, including banners, posters, brochures and public service announcements. N also hosts a dinner for the corporation's executives. The fair market value of the dinner exceeds the amount that would allow it to be disregarded.

*N's use of the corporate name and logo in connection with the exhibition would constitute acknowledgment of the sponsorship. However, the dinner for corporate executives is a substantial return benefit. Only that portion of the corporation's payment, if any, that N can demonstrate to exceed the fair market value of the dinner for the corporation's executives is a qualified sponsorship payment.*

# Unrelated Business Income

**Illustration 2:** T, a symphony orchestra, performs a series of concerts. A program guide that contains notes on guest conductors and other information concerning the evening's program is distributed by T at each concert. The Music Shop makes a \$1,000 payment to T in support of the concert series. As a supporter of the event, the Music Shop is recognized in the program guide and on a poster in the lobby of the concert hall. The Music Shop receives complimentary tickets to the concert series. The fair market value of the complimentary tickets is \$85. The lobby poster states that "The T concert is sponsored by the Music Shop, located at 123 Main Street, telephone number 555-1234." The program guide contains the same information and also states, "Visit today for the finest selection of music CDs and cassette tapes." The fair market value of the ad in the guide is \$15.

*T's use of the Music Shop's name, address and telephone number in the lobby poster constitutes acknowledgment of the sponsorship. However, the promotion in the program guide and complimentary tickets are a substantial return benefit, the fair market value of which (\$100) exceeds the amount which would have allowed them to be disregarded (\$20: 2% of the \$1,000 payment). Thus, only \$900 is a qualified sponsorship payment: the excess of the \$1,000 payment over the \$100 fair market value of the substantial return benefit.*

# Unrelated Business Income

**Illustration 3:** U, a national charity dedicated to promoting health, organizes a campaign to inform the public about potential cures to fight a serious disease. As part of the campaign, U sends representatives to community health fairs around the country to answer questions about the disease and inform the public about recent developments in the search for a cure. A pharmaceutical company makes a payment to U to fund U's booth at a health fair. U places a sign in the booth displaying the pharmaceutical company's name and slogan, "Better Research, Better Health," which is an established part of the company's identity. In addition, U grants the pharmaceutical company a license to use U's logo in marketing its products to health care providers around the country. The fair market value of the license exceeds 2% of the payment and so cannot be disregarded.


*U's display of the pharmaceutical company's name and slogan constitutes acknowledgment of the sponsorship. However, the license granted to the pharmaceutical company to use U's logo is a substantial return benefit. Only that portion of the pharmaceutical company's payment, if any, that U can demonstrate to exceed the fair market value of the license granted to the pharmaceutical company is a qualified sponsorship payment.*

# Questions

**WHEN IT COMES TO YOUR  
BUSINESS NEEDS, WE USE  
MORE BRAIN POWER.**

**Not More Man Power.**



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