



Understanding Quid Pro Quo Contributions for Your Nonprofit Gala

Client Advisories

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Your nonprofit organization is gearing up for its annual gala. The venue is booked, the invitations are sent, and excitement is building. But amidst the flurry of event planning, there's a crucial detail that often gets overlooked – the IRS rules regarding quid pro quo contributions.

Many nonprofits hosting fundraising galas often neglect to properly abide by the substantiation requirements for quid pro quo contributions by not accurately conveying to attendees the tax-deductible portion of their gala ticket price. This can lead to penalties being imposed by the IRS and cause friction with donors.

The Basics

In the context of nonprofit galas, a quid pro quo contribution occurs when a donor makes a payment to a charity and receives something of value in return. For example, let's say your organization sells tickets to its gala for \$225 each. In exchange for this payment, attendees enjoy a lavish dinner and drinks, entertainment, and perhaps even a silent auction. The key here is that attendees are receiving goods or services in return for their payment.

IRS Substantiation Requirements

According to IRS rules, when a donor makes a payment greater than \$75 partly as a contribution and partly for goods and services provided by the organization, a written disclosure statement must be provided to the donor. Specifically, nonprofits are required to provide donors with a good faith estimate of the value of what they receive in return for their contribution. The donor can then deduct the amount of their payment that exceeds the fair market value of the benefits received. This means that when someone purchases a ticket to your gala, you must inform them of the fair market value of the goods or services they'll be receiving.

In our gala example, let's say the fair market value of the dinner and entertainment provided is \$100 per

ticket. This means that only the portion of the ticket price above \$100 may be considered a tax-deductible donation. In this case, it would be \$125.

State Considerations

Most states also require charitable organizations to register and comply with statutory requirements before soliciting donations from residents of that state. The registration requirements help protect donors by mandating disclosures about the organization's charitable purposes, governance, and finances. However, there are several exemptions or exclusions that may apply depending on the specifics of the organization and its fundraising activities. For example, religious organizations are typically exempt, as are organizations that only solicit funds from their own members or affiliates. Additionally, some states exempt organizations that raise less than a specific dollar threshold amount annually. You should carefully review the laws in each state where you solicit funds to determine if registration is required and comply with all applicable regulations.

Some states also require nonprofits to include specific language on their donation receipts. For example, Pennsylvania requires nonprofit organizations that are registered with the state to include the following statement, verbatim, on all written solicitations and donation receipts:

"The official registration and financial information of [insert the legal name of your charitable organization as registered with the Bureau] may be obtained from the Pennsylvania Department of State by calling toll-free, within Pennsylvania, 1-800-732-0999. Registration does not imply endorsement."

Why Compliance Matters

As noted above, noncompliance can lead to some serious consequences for your organization. For example, failing to properly substantiate quid pro quo contributions could result in penalties, revocation of your charitable solicitation registration, or, in especially egregious cases, even revocation of your tax-exempt status.

Moreover, misinforming donors about the tax-deductible portion of their contributions can erode trust and credibility. Donors want to feel confident that their contributions are being used effectively and ethically. If they discover discrepancies in how their donations are being reported, it could damage your organization's reputation and deter future support.

How to Ensure Compliance

To ensure compliance, it's important to have some guidelines in place.

1. **Know the Fair Market Value:** Take the time to accurately assess the fair market value of the goods or services provided at your gala. This may require consulting with vendors or experts to determine a



reasonable estimate.

2. **Clearly Communicate with Donors:** Be transparent with donors about the tax-deductible portion of their contributions. Clearly state on event invitations, tickets, and receipts the fair market value of the goods or services being provided.
3. **Educate Your Team:** Ensure that staff and volunteers involved in event planning and fundraising understand the IRS rules regarding quid pro quo contributions. Provide training and resources to help them accurately convey this information to donors. This can be especially important if receipts are generated automatically when someone purchases a ticket online.
4. **Consult Legal and Financial Experts:** When in doubt, seek guidance from legal and financial professionals who specialize in state and federal nonprofit tax law. They can help ensure your organization is compliant with IRS regulations and avoid any potential pitfalls.

Final Thoughts

Hosting a fundraising gala can be an exciting and rewarding endeavor for your nonprofit organization. However, it's essential to remember the legal and regulatory obligations that come with soliciting contributions from donors.

By understanding and adhering to the IRS rules regarding quid pro quo contributions and state charitable solicitation laws, you can protect your organization's tax-exempt status, maintain donor trust, and pave the way for continued success in your fundraising efforts. For more information, please contact **Noel Fleming** at 267.422.9855 or nfleming@archerlaw.com, or **Kayci Petenko** at 267.422.9856 or kpetenko@archerlaw.com.

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