

With a Charity in Dire Straits

by *Bonnie D. Huval*

In tough economic times, donations to nonprofit charities often drop. You may be uneasy about doing business with a charity that is financially stretched.

So don't do business with it. Give it something instead. Properly done, your gift can boost the charity and boost your marketing at modest cost to you.

Official classification of the charity is crucial to making this work. The main types of USA nonprofits are:

- Nonprofit, but not certified as exempt from income tax.
- Certified as exempt from federal income tax under U.S. Tax Code Section 501(c)(4). Donations to this type of nonprofit are not tax-deductible for donors.
- Certified tax-exempt under Tax Code Section 501(c)(3). Donations to this type of nonprofit are tax-deductible on donors' tax returns.

When your business donates products or services rather than money to a 501(c)(3) nonprofit, the donation is tax-deductible for your business at the fair market value of what you donated. I am an owner of a restaurant, which I will use to show how you can apply that to everyone's benefit.

Dinner With The Chef is a premium event in the special events room. Diners pay four or five times as much as they would for a regular meal. They get a sampling of a wide swath of the authentic Asian menu--and for each dish, the head chef tells about its heritage and how it is prepared, including the sauces that are all made on-site. The price is higher if specially selected wines are featured, in addition to the usual wide variety of teas. Wines and teas are detailed by an in-house specialist from the wine industry.

From time to time, the restaurant donates Dinner With The Chef for a set number of people to a fundraising auction for a 501(c)(3) nonprofit.

We can make this easy to understand with round (and achievable) figures. Let's say the donation is Dinner With The Chef for 20 people, with wine. The most recent such Dinner sold out at \$50 per person, so we can document a market value of \$1000.

A good auctioneer stirs excitement about the Dinner (which is not hard, since it is highly regarded around town). Bids go up, perhaps beyond market value because all the bidders are there to support the charity. The auction winner bids \$2500.

The whole \$2500 goes to the nonprofit organization. The winner gets the dinner for themselves and 19 friends, plus a tax-deductible donation on their personal tax return, so the winner will recoup some of the \$2500 as a tax deduction.

The restaurant has no bill to send and no payment to collect for the donation. It only has to do the Dinner. The material cost of food and drinks for the Dinner is about 30% of fair market value, which makes it \$300. The head chef and wine expert

would be there anyway, and it only takes a couple of staffers to provide table service for a couple of hours or so. The extra labor cost is \$50. For a cost of \$350, the restaurant causes \$2500 to go to the charity, plus it can record its charitable donation as \$1000 (fair market value) on its own tax return.

Everyone at the auction learns that the restaurant makes valuable donations to a cause they care about. No advertisement can buy such positive marketing exposure. Some people at the auction and some of the friends invited by the winner to the special dinner will go to the restaurant on their own in the future as a result of this exposure, so the restaurant gains new customers.

Everyone benefits!

You can make this type of donation even when the nonprofit is so financially weak that you dare not sell anything to it-and that is exactly when the nonprofit desperately needs such help.

Keep evidence of the organization's 501(c)(3) certification in your files in case your tax returns are ever audited. Also pay attention to current rules for donations. As of this writing, IRS regulations would only allow our auction winner to deduct the amount above the fair market value of any benefit received by the auction winner, which is the Dinner in this case (\$2500 minus \$1000 = \$1500).

The nonprofit has to provide a receipt that includes this information, and the nonprofit needs a statement of the fair market value from the restaurant. The IRS can adjust rules at any time, but in general, the small extra effort for documentation is trifling-and the potential for "doing well by doing good" is fantastic!

About the author: Bonnie D. Huval has been a consultant since 1992, helping companies make more money with their automation and transaction systems. Her USA and UK business interests also include real estate, property management and a restaurant. Her materials at <http://www.makesureyougetpaid.com> help small businesses be more successful. Consulting services are available through <http://www.seneschal.biz>. Copyright 2009. This article may be reprinted only in its entirety, with full attribution.

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