Form 990 Reporting for Special Events Can Be Tricky – And Is Often Wrong

Many returns fail to separate contributions and other amounts because nonprofits fail to keep adequate records

In reviewing Form 990 tax information returns for nonprofit organizations, one of the most consistent areas of error seems to be reporting income from special events. Very seldom do you feel that things are listed correctly. And the benefit of accurately reporting a spectacularly successful event can be totally lost. Ask the accountants why the return is not correctly filled out and you often get the answer that the client hasn't given them the proper information.

Special event reporting is important because the Form 990 has special lines on the Part VIII Revenue Statement to report fundraising events. (Similar lines exist on the Form 990-EZ for smaller organizations.) Charities do not want their volunteers and donors to think that their efforts for the annual fundraising gala didn't produce any benefit for the organization. And yet, a poorly prepared return can do just that. It is another reminder that the Form 990 is an important public relations document.

Fundraising events include things like the annual gala dinner dance, concerts, carnivals, special sports events, and door-to-door sales of merchandise. They do not include events or activities that relate to the organization's charitable mission even if they produce revenue as part of the activity. They are, by definition, unrelated to the organization's exempt activity, but probably don't produce unrelated business taxable income because they are not "regularly carried on." (See Ready Reference Page: "Nonprofits Often Worry About UBIT")

The first key to correct reporting is to separate the amount paid by the patron/donor that represents the fair market value paid to attend the event from the additional payment that is actually a contribution to the organization. Say, for example, that the organization has an annual dinner dance for which it asks its supporters to pay $100 for a bronze ticket, $300 for a silver ticket, and $500 for a gold ticket. They all get to enjoy the same dinner worth $50. As a result, the bronze ticket purchaser is making a contribution of $50, the silver ticket purchaser a contribution of $250, and the gold ticket purchaser a gift of $450.

The organization should not have a hard time figuring out these numbers because it is required (if the total payment is more than $75) to notify the patron/donor of the amount of the payment that exceeds the value of the goods and services received in return and is deductible as a charitable contribution. (See Ready Reference Page: "Charities Must Set Value on 'Quid Pro Quo' Gifts")

The contribution amount for each ticket gets reported twice in the Statement of Revenue on the Form 990. It is reported as a contribution on line 1c under Fundraising events, and also in the parentheses outside the box for line 8a. (See copy of Form 990 on next page.)

To continue the simplified example, if the organization sold one ticket of each type, it would report a total contribution of $750 ($50 for the bonze ticket, $250 for the sliver ticket, and $450 for the gold ticket) on line 1c and outside the box by line 8a. Since each patron/donor in effect paid $50 for the dinner, it would report a total of $150 as the gross income paid for the dinners inside the box on line 8a.

If it paid $50 for each dinner and that was its only direct cost, it would report $150 on line 8b and show a zero gain or loss for the event. If the dinners were contributed to the organization entirely free by another donor, it would report no expense and have net other income of $150.

The net income must be allocated, since it is by definition not related or exempt function income, to either unrelated business income ("UBI") or revenue excluded from UBI in columns C or D of Form 990. In the example, since the dinner is held only once a year and is not "regularly carried on," the income would be excluded and listed in column D. If the dinner were held every month, or if members of a youth sports team sold wrapping paper to generate funds throughout the year, the income would probably be considered regularly carried on and taxable under column C.

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Part VIII **Statement of Revenue**

Check if Schedule O contains a response or note to any line in this Part VIII . . . . ☐

				(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512-514
Contributions, Gifts, Grants and Other Similar Amounts	1a	Federated campaigns	1a				
	b	Membership dues	1b				
	c	Fundraising events	1c				
	d	Related organizations . . .	1d				
	e	Government grants (contributions)	1e				
	f	All other contributions, gifts, grants, and similar amounts not included above	1f				
	g	Noncash contributions included in lines 1a-1f: $					
	h	**Total.** Add lines 1a–1f . . . . ▶					

Other Revenue	8a	Gross income from fundraising events (not including $ of contributions reported on line 1c). See Part IV, line 18	a				
	b	Less: direct expenses	b				
	c	Net income or (loss) from fundraising events . ▶					

Only direct expenses, such as the cost of the dinner or production of the invitations should be deducted from the gross income. General overhead and other indirect costs are not accounted for here and show up in other appropriate lines on the Part IX Statement of Functional Expenses.

If it were as simple as the example above, charities would make fewer mistakes. But real life is not quite as simple. They tend to sell a lot of tickets. They have friends who pay to be known as "sponsors" of the event and get their name on the program book and a couple of free tickets to the event. Each of these "quid pro quo" gifts associated with the fundraising event has to be considered, valued, and included in the calculation.

Sometimes, with events such as a golf outing, they actually pay more for the event than they charge the guests. (They may also pay for some special guests who participate for free.) They may have to show a loss from the event. But with all of the sponsorships, perhaps revenue from a lottery (that has to be reported on Line 9 of the Form 990 and not as part of the fundraising event in line 8), and other benefits, it is still helpful to the organization.

The Form 990 also requires that charity auctions be included in the fundraising event reporting. The IRS Instructions provide an example of an auction of a donated home theater system with a fair market value of $5000. It assumes that the system sells at the auction for $7500, and that the organization spent $500 in direct costs of selling the system at the auction. In such case, the Instructions state that the charity would report the contribution amount of the sale ($2500, the excess of the purchase price over fair market value) on line 1c and outside the box of line 8a. It would report the income of $5000 paid for the system as gross revenue inside the box on line 8a. It would report its "cost" as the $5000 value of the donated system plus the $500 cost of making it ready for sale on the direct expense line 8b. The net result is a loss of $500 on line 8c.

(The donor of the system's contribution of an item worth $5000 is not reported under the fundraising event income anywhere in line 8, according to the IRS instructions, but is reported on line 1f as part of "all other contributions." If the system donor had paid less than $5000 for the system, of course, the donor's deductible amount would not be increased to the fair market value, even if held more than a year before the gift, because the item of personal property is not being used in the charity's charitable program. An item of personal property not used in the charity's program may be deducted only at the lesser of tax cost or fair market value.)

The IRS example goes on to show that if the system sells for only $2500, there is no contribution listed on line 1c and outside the box of 8a. There is a gross income amount of the $2500 paid for the system inside the box on line 8a. The direct costs of $5500 are reported on line 8b, and a net loss of $3000 is shown on 8c.

The net income or loss from line 8c is also reported as part of the aggregate of "other revenue" reported on the first page of the Form 990 in Part I, line 11.

If the total of the contributions reported on line 1c and the amounts paid by the patrons/donors and reported as gross income for the value of the goods and services on line 8a exceed $15,000, the organization is required to complete Schedule G to report each event separately.

With the Form 990 requiring this much work for what may seem to be merely peripheral information, it is no wonder that many of them simply don't make the effort. Even if the organization tries, by the time it goes through these calculations for all of its fundraising events during the year, and for all of the transactions related to each of the events, the numbers can be big and may not be very precise. But they still have to be reported.