

Donations to Libraries, Local Government Tax Status and 501(c)3 Organizations

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Are donations to the library tax-deductible?

Yes. Donations to the library generally qualify for tax deductions. IRS Publication 526 states that *“Money or property given to federal, state, and local governments, if your contribution is solely for public purposes”* is deductible (page 2). Donations to the library are deductible because the library is a department of a local government and donations would be for public purposes. Further, this IRS page <http://www.irs.gov/Government-Entities/Federal,-State-&-Local-Governments/Governmental-Information-Letter> (accessed, 2/2/15) states: *Charitable contributions to governmental units are tax-deductible under section 170(c)(1) of the Internal Revenue Code if made for a public purpose.*

What is 501(c)3?

501(c)3 is a section of the Internal Revenue Service Code that grants exemption from federal income taxes to nonprofit organizations that are operated for religious, charitable, scientific, literary, or educational purposes. A further provision of the IRS Code provides a federal income tax deduction to individuals and companies who donate to these organizations.

Does the library qualify?

No. Government entities do not qualify for 501(c)3 status. Chapter 3 of IRS Publication 557 states: *“A state or municipal instrumentality may qualify under section 501(c)(3) if it is organized as a separate entity from the governmental unit that created it and if it otherwise meets the organizational and operational of section 501(c)(3). However, if an organization is an integral part of the local government or possesses governmental powers, it does not qualify for exemption. A state or municipality itself does not qualify for exemption”* (page 19, bottom of middle column). As a department of its parent municipality the public library would likely be considered *“an integral part of the local government”* and would not qualify for 501(c)3 status.

What if a donor is reluctant to donate to the library because of our lack of 501(c)3 status?

If someone is reluctant to donate to the library because of your lack of 501(c)3 status there are two possible options:

- Discuss the above information with them and assure them that their donation is indeed tax deductible. A letter from an accountant or your municipal attorney verifying this may be helpful.

- You can also get a “Government Information Letter” (occasionally known as a “Government Affirmation Letter”) from the IRS stating that donations to a government entity are tax deductible. This letter describes government entity exemption from Federal income tax and cites applicable Internal Revenue Code sections pertaining to deductible contributions and income exclusion. Contact the IRS at 1-877-829-5500 to request a letter.
- Find a 501(c)3 organization acceptable to the donor that will receive the funds on your behalf (Friends group, community foundation, etc.).

Do we have to give donors a receipt for tax purposes?

If the donor wants to deduct the donation on their income taxes they may not need a receipt. The IRS doesn’t require a receipt for donations of under \$250 but many charities send letters acknowledging smaller donations. For donations over \$250 the IRS requires “contemporaneous written acknowledgement” of the donation (a receipt or thank you letter). It can be sent right away or later; the IRS requires the taxpayer to have it when they file their taxes. A separate acknowledgement may be provided for each single contribution or one acknowledgement, like an annual summary, may be used.

Many charities send letters acknowledging smaller donations because if someone gives a number of smaller donations throughout the year that together total over \$250 the donor will need a receipt or letter for tax purposes.

What should the receipt say?

According to the IRS, here are some of the key items a proper receipt must include:

- Name of the organization
- Amount of cash contribution
- Description (but not the value) of noncash contribution
- Statement that no goods or services were provided by the organization in return for the contribution, if that was the case
- If you did provide any goods or services they need to be listed and include a good faith estimate of the value. For example, you have an auction that includes a painting by a local artist. The painting would sell for \$75 in an art fair but the sale price was \$100. You could provide the buyer with a receipt stating the sale price of \$100 and the estimated value of \$75.

Where can I find more information?

- IRS Publication 557 *Tax-Exempt Status for Your Organization* <http://www.irs.gov/pub/irs-pdf/p557.pdf>
- IRS Publication 526 *Charitable Contributions* <http://www.irs.gov/pub/irs-pdf/p526.pdf>
- IRS page <http://www.irs.gov/Government-Entities/Federal,-State-&-Local-Governments/Governmental-Information-Letter>
- Information on receipts from Baker-Tilly <http://www.bakertilly.com/insights/reminder-for-charitable-organizations-providing-donation-receipts/>