TAX TALKS

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A charity with deductible gift recipient (DGR) status runs a fundraising event. Let's say a gala dinner for $500 per head with a charity auction at the end. Is there a tax deduction for fundraising events?

Tax Deduction for Fundraising Events

Is the cost of attending a fundraising dinner or buying items at a charity auction a tax-deductible gift? The short answer is No. The donors get something back in return for the money they spent. So it is not a gift but a contribution. And contributions are usually not tax deductible. But …

Part of the contribution is tax deductible if the charity only provides a minor benefit in return.

Basic Rule

If a donor makes a donation in the form of money or property to a charity with DGR (deductible gift recipient) and receives no benefit in return, the donor can claim a tax deduction for this gift provided they received a receipt. For more details re tax deduction of a giftsee TR 2005/13.

If the donor receives a benefit in return, for example a meal or an auction item, it is a contribution and hence does not entitle to a tax deduction. These are the ground rules.

But what if the money is paid for a combination of things? $50 is to attend the event. But the rest is to support the charity that runs the event. Donors pay well above market value to support the charity that runs the event. The dinner and auction is just the side show. It is a minor benefit in comparison to what this is really about. So here comes the minor benefit rule.

Minor Benefit Rule

If donors pay $150 or more and only receive a minor benefit in return, then they can claim a tax deduction for the amount they paid extra.

Benefit

A benefit is what the donor receives for their contribution. If they pay $500 to attend the charity Gala dinner and the restaurant charges $50 per head, the benefit is $50.

Minor Benefit

What makes a benefit a minor benefit? A benefit is minor if its value is both $150 or less and 20% or less of what is actually paid.

The argument is that if a donor pays 80% or more for what it is worth, they clearly pay the money for other reasons than the benefit they get back. Their intentions are clearly altruistic.

Let’s go back to the charity Gala dinner. Donors pay $500 for a meal worth $50. So the charity passes the minor benefit rule and can issue a receipt for a $450 donation. If the restaurant charges $150 per meal, the benefit is no longer minor since more than 20% of the contribution, so no tax deduction.

Market Value

A benefit is worth its market value. The market value is what donors would have had to pay for the same good, service or event on the open market. And if there is nothing else like this, then a similar or comparable good, service or event (price or market comparison).

But what if it is impossible to make a reasonable price or market comparison? Then the market value is assessed based on cost. Take the actual cost plus notional costs plus a certain profit margin and you get the market value(cost-based approach).

It is the charity who assesses the market value, not the donor. Because it is the charity issuing the receipt. So they need to know what to list as a donation on the receipt.

Cost Subsidy

Any benefit is assessed based on its market value or cost, even if part or all of the benefit was actually subsidised.

Let’s say a donor picked up the tap at the charity Gala dinner. So the charity only had to pay $50 per meal, but not the additional $60 per head for free drinks. What is the market value of the benefit received? The answer is $110.

Or if a professional entertainer waives their fees, the minor benefit rule still uses the fees that the entertainer usually charges, even though the charity didn’t pay the fee.

Even if everything was donated – venue, meals, drinks and the MC – it would still be the market value of all this that would go into the calculation. The fact that the charity didn’t pay for some of the benefit doesn’t change the market value or notional cost of that benefit.

But all this only applies if attendees pay to attend the charity event.

Free Event

If attendees don’t pay to attend and are just asked for a donation, which they are free to make or not, then the entire payment is a donation and hence tax deductible as such. You don’t need to worry about the minor benefit rule.

Fundraising Auction

Individual donors can claim a deduction for the purchase of any goods or services at a fundraising auction. And this is in addition and independent of the ticket price.

Let’s say there is a charity auction at the end of the Gala dinner. And Bob Smith bids $1,000 for a golf bag worth $100 and $500 for wine worth $50.

In that case Bob can claim 3 deductions. He can claim $900 for the purchase of the bag, $450 for the purchase of the wine and $450 for the ticket if the event passes the minor benefit rule. If the ticket fails the minor benefit rule, then he can still claim the bag and the wine.

No Gift in Ticket Price

The charity can't split the ticket into event and gift. It can't say $150 of the ticket is for the Gala dinner and the other $350 are a gift. Para 149 in TR 2005/13 is very clear on that one,

> *Para 149: Where DGRs conduct fundraising events such as celebrity dinners, gala events, $1,000-a-plate dinners, and so on, the price of a ticket cannot be notionally split between the value of the material benefit received, that is, the meal, and the amount which represents a gift. Where attendees are to pay a given sum of money in order to attend a function, no part of that sum can be considered a gift. This is so even where the cost of attendance is well in excess of the value of the meal received.*

But the charity can charge the meal at market value and then ask for a donation. Para 151 in TR 2005/13 even suggests that,

> *Para 151: However, a fundraiser can offer tickets to a function for an amount which approximates its market value, and solicit additional optional donations from potential attendees. The ticket cost will not be deductible as a gift. However, the additional optional donations will be tax deductible.*

Limit to Two

An individual attending a fundraising event may claim up to two contributions for the same fundraising event – for example, the purchase of a ticket for the individual and their spouse. There is no limit to the number of deductions for the purchase of goods or services by way of successful bids at a fundraising auction.

So if Bob brings his wife and 3 children, he can only claim a tax deduction for two tickets. But he can still claim the bag and the wine.

Only Individuals

Only individuals can claim a tax deduction for a contribution. Companies, trusts and partnerships might be eligible to claim a tax deduction for a gift, but they are barred from the minor benefit rule. So if Bob Smith Pty Ltd pays for Bob and his wife to attend the dinner – no tax deduction. If Bob pays – tax deduction -provided it gets through the minor benefit rule.

General Conditions

Just for completeness there are a few more conditions that must be met for anything to be tax deductible. The charity must have DGR status and comply with government fundraising requirements. The charity must give the donors a receipt that outlines what amount is tax deductible and the amount of their minor benefit. And the charity must run less than 15 events of the same type per year.

So the tax deduction for fundraising events depends on many ifs and whens. But the minor benefit rule is probably the biggest hurdle to take.

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