Noncash Contributions

Organizations often receive noncash contributions (also called gifts-in-kind or in-kind contributions) in the form of donated goods, services and facilities. These noncash contributions have unique accounting and reporting requirements. In addition, the treatment of certain noncash donations is different for financial and tax reporting purposes.

Donated goods include food, supplies, clothing, household items, vehicles and real estate. Donated services include time from professionals. Donated use of facilities includes the free use of space.

Financial Accounting

In general, noncash contributions that can be used by the Organization or sold in order to raise funds for the Organization should be recognized at the fair value on the date of contribution. If the contributed goods cannot be used or sold by the Organization, they may be considered to have no value and, therefore, should not be recognized.

Fair value is the estimated price in which an item can be sold to a third party under current market conditions. Sometimes it may be relatively easy to determine the fair value; for example if someone donates a new computer, you can research the cost online. Other times, it may be more difficult; for example, if an animal shelter receives pet food that is past its sell by date – but still good for consumption – the food should be valued at some amount less than retail. Sources for determining fair value include published catalogs, online comparisons, independent appraisals, etc. Methods such as estimates or averages can also be used, especially for items received in bulk, so long as the method is applied consistently and the results are expected to be similar from a more detailed measurement. Be sure to retain documentation of how the fair value was determined.

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Donated services should only be recognized as noncash contributions if the services either:

- require specialized skills, are provided by persons possessing those skills, AND would be purchased if they were not donated; or
- create or enhance a nonfinancial asset (such as construction of a new building).

Donated services that meet the criteria should be recognized at fair value regardless of whether the organization could afford to purchase the services at fair value. Fair value may be estimated based on fees or hourly rates charged for similar services under similar conditions.

Noncash contributions are recorded as an asset (such as inventory or fixed assets) or as an expense, depending on the anticipated use of the item. The expense should be recorded according to its natural function. For example, if you received donated soccer balls for use at your after-school youth program, the fair value of the soccer balls would be recorded as contribution revenue with an equal amount recorded to program expense.

Tax Accounting

On the IRS Form 990, donated goods are reported as non-cash contributions, measured at fair value similar to financial accounting. Donated services and donated use of facilities are NOT reported on the 990, even if they qualify for reporting under financial accounting. Additional differences between financial and tax accounting include:

Donated advertising is considered a donated good for financial accounting purposes (and therefore included in the financials), but as a donated service for tax reporting purposes (and therefore excluded from the 990).

Stock donations are considered noncash contributions on the 990. Although the accounting treatment is the same for financial and tax reporting, generally stock donations are not separately identified in the financials and are rather included with all contributions.

Noncash contributions are often received specifically for fundraising purposes, such as donations of gift certificates or merchandise to be sold during an auction. For 990 reporting, the fair value of the noncash contribution is included with contributions for the event, while the corresponding expense is considered a direct expense of the event. This is in addition to reporting the revenue from the sale of the item. The treatment of donated items sold for fundraising purposes can vary in financial accounting, depending on the amount and quantity of the items, and the timing of the event.

IRS Substantiation

Similar to cash contributions, the IRS requires that donors obtain written acknowledgement for any single noncash contribution of $250 or more. Although it is the donor's responsibility to obtain the acknowledgment, as a best practice, Organizations may provide statements to their donors as part of their regular procedures. The acknowledgement must not include the value of the noncash contribution and should include the following:

- Name of the Organization;
- Date of the contribution;
- Description (but not value) of the non-cash contribution;
- Statement that no goods or services were provided by the organization, if that is the case; and
- Description and good faith estimate of the value of goods or services, if any, that the Organization provided in return for the contribution.

There are additional rules that apply to a donated vehicle if the value exceeds $500. For more information on the rules related to vehicle donations, see here.

In addition, donated property valued at $5,000 or more generally requires an independent appraisal. For more information on determining the value of donated property, see here.

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