

# **Conducting Fundraising Auctions at North Carolina State University**

## **Frequently Asked Questions**

### **Office of Advancement Services**

**August 2009**

Charity auctions represent a fun method of bringing in private support to NC State. There are, however, many IRS rules and general dos and don'ts we must be aware of to ensure compliance with those regulations, while protecting the possibility of providing a tax-deductible opportunity for many of our patrons:

- Items contributed for an auction *may* be tax-deductible. There are two underlying rules:
  - The item must be a gift in the eyes of the IRS. This excludes material recognized as either a service or partial interest. Examples of non-deductible services include free massages, legal advice, tax preparation, etc. Partial interest gifts include the use of a vacation home, free rounds of golf, free airline tickets, or stays at a hotel.
  - The item must actually sell at the auction. Therefore, we do not provide receipts for donated items until after the conclusion of the auction. Those receipts will describe, without indicating value, what was given.
- Donated auction items fall under the IRS definition for unrelated use property. Any contributed property not put into service by the nonprofit organization falls under this category. A related use gift would be a piece of medical equipment donated to VetMed. While the conversion of property to cash that we can then spend is great for NC State, the law requires a reduction in a donor's deduction for unrelated use property. We must advise donors when soliciting auction items of the unrelated aspect of their donation.
- We must advise donors of items estimated to be worth \$500+ of the possible need for them to file IRS Form 8283 with their itemized tax return. They should be encouraged to seek tax guidance and, if required, obtain a copy of the latest version of this form, complete their required portion, and deliver to us for signature and return.
- We must advise donors of items estimated to be worth \$5,000+ of their possible requirement to obtain the signature of a qualified appraiser on their 8283 prior to delivery of the 8283 to NC State for signature. We should also inform the donor of our further requirement to file Form 8282 with the IRS whenever we sell donated property of this level within three years of the donation, as will likely be true for donated auction items.

- In order to provide an opportunity to prospective bidders to claim a deduction, bidders must readily know the fair market value (FMV) of each auction item. An auction program or descriptions on the bid sheets are common ways to accomplish this.
- Provided the winning bidder knew the FMV in advance of the auction, they will be able to claim a deduction for any amount paid in excess of that FMV. Advancement Services will provide a receipt reflecting this net deductible amount.
- There can be no listing of an item as “priceless,” unless there is no desire or intent to provide the winning bidder with a possible tax-deduction. In such a case, the winning bid establishes the value and, thus, the bidder receives something of equal value for their payment. Please make all efforts to identify the FMV of auction items. Prior similar auctions and eBay are good sources for values.
- Many groups will often tie a raffle or door prizes to auction events. The IRS considers these games of chance. Therefore, any admission price or purchase that qualifies an attendee for such a game of chance disqualifies any portion of that fee for a deduction.
- The IRS does not publish many specific guidelines – in one place – pertaining to charity auctions. One good discussion, however, is found here:

<http://www.irs.gov/charities/charitable/article/0,,id=123204,00.html>