

## Gifts in Kind: What Nonprofits Should Know

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Charitable donations come in different forms; while cash is king, other types of contributions are useful, too. Among them are “gifts in kind,” sometimes also called “in-kind gifts” or “in-kind donations.”

### *Different Types of Charitable Gifts*

A cash contribution is, for many reasons, the preferred type of gift. It’s simple and straightforward and provides the organization with the means to buy any goods or services it needs, to carry on any of its activities, or to provide benefits or services to the beneficiaries it serves. There is no question about fair market value; cash is cash. The reporting and accounting issues are minimal and uncomplicated.

But in-kind gifts can be equally important and valuable to a 501(c)(3). There are, however, special issues and rules for accounting and reporting.

Simply put, it is a form of charitable giving in which a donor does *not* give money to buy goods and services the donee—organization needs but, instead, gives the goods and services themselves.

There are three general types of in-kind gifts:

- *Goods/Property*: Examples in this group are office furniture, computer hardware and software, and supplies. This category also includes intangible property like contributions of patents, royalties, and copyrights as well as items can be offered at fundraising special events like auctions.

- *Services*: Examples include free or discounted use of office or meeting space and administrative services like printing and copying.
- *Expertise*: Examples include donated professional services (legal, accounting, consulting) and social media or web-design help. Depending on the mission of the organization, it can also include a broader range of expert services like medical personnel or others donate their abilities to carry out certain programs or activities.

#### *Special Accounting Issues for Gifts in Kind*

There are distinct issues for in-kind gifts compared with cash donations in terms of when and how they are reported in the organization's accounting records and on government filings.

#### *Timing of Gifts*

A special issue in connection with gifts in kind is determining when the donation is "recognized" for accounting purposes. Generally, if the item is property, then the charitable contribution is recorded when the donor turns it over without condition and without getting anything in return.

A gift of donated services is generally "recognized" if the services (a) create or increase the value of a nonfinancial asset, or (b) require specialized skills, are given by a donor possessing them, and are of a type that would need to be purchased in any event. An example is a CPA who performs services for the 501(c)(3) at no charge. On the other hand, if a hospital has volunteers who provide comfort and convenience services to patients, their donated services would not be recorded in the financial statements because these are not specialized skills that the organization would have to pay for otherwise.

#### *How Gifts are Recorded*

An in-kind gift is recorded in the books and records at fair market value as contribution revenue and also as an asset or expenses in the period received. The value of tangible personal property donated should be recorded as the price the organization would otherwise pay for the goods at retail. The fair value of services donated can be calculated on the basis of the regular professional hourly rate of the donor. For instance, if a lawyer donates 4 hours and that person's regular hourly rate is \$300, then the 501(c)(3) should record contribution revenue in the amount of \$1,200 and also record a corresponding expense for professional fees.

If the in-kind gift is goods or services provided at a discounted rate, the amount recorded as contribution revenue (and as the corresponding expense) is the difference between market rate and the discounted rate.

### *Additional Information*

The recommended practice is to report in financial statements not only the amounts of contributed services, but additional information about the activities or programs connected with those services as well as the nature and extent of the services.

Donee-organizations also often include – for general information purposes – amounts of donated services and their estimated value that were received but were not recognized as revenue as well as an estimated value. This would refer to activities like the hospital volunteers who are not professionals.

### *Form 990s*

In-kind gifts of tangible property are reportable on the organization's annual Form 990 under the category of "gifts, grants, contributions, or membership fees." Certain types of gifts including those valued at more than \$25,000, or art, historical items, or other special assets, are reported on additional forms. Donated services are not reported on Form 990, but the value of that service is shown as a "reconciling item" on the annual information return.

### *Conclusion*

These are general guidelines only. An organization that receives non-cash donations should seek professional advice to help with these accounting and reporting duties.