

which provides further guidance and examples in this area. For a discussion of similar issues in Canada, see CCRA's publication IT-110R3, "Gifts and Official Donation Receipts," revised and reissued July 11, 1997.

Corporate Sponsorships

Corporations and other organizations often give money to institutions to sponsor activities, events, or projects and in return receive recognition on campus, at the event, or in accompanying publications. Most corporate sponsorship dollars are fully countable; the determining factor is whether the recognition the corporation receives constitutes advertising. The IRS defines advertising in this instance as competitive pricing or product information displayed because of the donation. If the recognition fits this definition of advertising, the sponsorship is an exchange transaction, not a gift. Simple name or logo placement is not advertising.

If, in return for a gift, a donor or donor organization has its name placed on a brick, chair, building, or other item or program that remains part of the institution, this recognition does not reduce the value of the gift so long as it is not "advertising" per the above IRS definition.

For a sponsorship to qualify as a contribution, all the factors below must exist:

- the sponsorship contribution must be made by a person or corporation engaged in a trade or business
- the sponsor should not expect nor receive a substantial return benefit (2 percent of sponsorship contribution) for payment other than name acknowledgement and/or promotional value
- the promotional information should be limited to any or all of these:
 - a) sponsor's location, telephone number, internet address
 - b) value-neutral description of sponsor's products or services
 - c) sponsor's brand/trade name or product/service listings
- there is no qualitative or comparative advertising of sponsor's products or services such as pricing, savings, value, purchase/sale inducements, etc.
- the sponsorship should not be contingent on event attendance, ratings, or public exposure.

The following are examples of sponsorships that do not qualify as charitable gift income (sometimes called exchange transactions):

- advertising revenue
- exclusive vendor relationships, such as fees received for soft drink pouring rights
- trade-outs, such as hotel rooms and transportation; these are considered services and are not reportable to CASE or CAE

- donations of athletic uniforms, shoes, and equipment via exclusive vendor agreements whereby the university receives the items in exchange for refraining from using competitors' products.

Examples. Following are some examples of situations involving corporate sponsorships:

- An institution hosts a golf tournament with all proceeds going to that institution's tax-exempt purposes. The institution offers corporate sponsorship opportunities, whereby the sponsor would pay \$2,500 to provide food and beverages at any one of the 18 holes, in exchange for displaying a placard stating the name of the company sponsoring that hole. Since the simple display of the corporation's name does not constitute "advertising," the entire \$2,500 is considered a gift for purposes of CASE and CAE reporting.
- In the same scenario as above, the sponsor also receives "free" admission for four participants in the golf tournament, with a fair market value of \$125 per person. In accordance with the quid pro quo discussion above, the fair market value of those tickets *must* be reduced from the amount paid to calculate the true gift amount. Therefore, the net gift amount for CASE and CAE purposes is \$2,000.
- An institution hosts a donor recognition dinner and asks local corporations to help underwrite the costs. In exchange for any amounts paid, the institution offers the corporations space to display and sell their products and services. This would constitute a form of free advertising for the companies that would not have otherwise existed had they not underwritten the costs. Therefore, none of the amounts paid may be counted for CASE and CAE purposes.

Nonprofit organizations must take great care to protect themselves from possible taxation issues arising from corporate sponsorships. IRS Federal Register Volume 67, number 80, published on April 25, 2002, promulgated final regulations pertaining to "Taxation of Tax-Exempt Organizations' Income From Corporate Sponsorships." Fund-raising personnel are urged to become familiar with this and other IRS material to ensure they conduct themselves properly and in accordance with government regulations.