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**TAX INFORMATION FOR VOLUNTEERS**

The Center for Volunteer Development  
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About the Center: The Center for Volunteer Development was established in 1980, with help from the W. K. Kellogg Foundation, to strengthen the voluntary sector in Virginia through educational programs and problem-solving assistance. Using the delivery system of the Cooperative Extension Service, the Center identifies and engages faculty at postsecondary institutions to assist volunteer organizations as they request help with problems and programs. In addition, it helps faculty members to understand and teach students about the importance of volunteerism. It assists with the development and adoption of syllabi, modules, and courses in volunteer management and development. A brochure explaining these and other services of the Center for Volunteer Development is available from the Extension offices or the Center.

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## TAX INFORMATION FOR VOLUNTEERS

by

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Is it worth the effort to record and determine the costs of volunteer work? In most cases, yes! For example, an individual in a 28% tax bracket who files an itemized form will save \$28 in taxes for each \$100 deduction. Remember: Unreimbursed out-of-pocket expenses directly related to services to a charitable organization are now deductible only if the volunteer itemizes deductions on his or her tax return. Items for which a volunteer receives reimbursement may be deducted only to the extent that actual expense exceeds the amount of reimbursement.

### GENERAL GUIDELINES

There are two general guidelines for tax savings from volunteer work. First, the cost or expenditure must be an allowable deduction for tax purposes. Secondly, the volunteer must be able to document that the cost was personally incurred.

Cost of volunteer work is usually classified for tax purposes as a charitable contribution, but may be classified as a business expense. To be deductible as a charitable contribution, the amount of cash or in-kind property must benefit a qualified organization as defined by the Internal Revenue Code (IRC).

If the volunteer operates a trade or business, volunteer work will frequently be done through business activities. In such case, a tax deduction may be taken as a charitable contribution (subject to all restrictions) or as a business expense (e.g., promotion, advertising, developing goodwill, or community service). In the case of a business deduction, the actual cost of the volunteer work most likely will be included with routine business expenses and not specifically accounted for. While this procedure is acceptable for tax purposes, any major activity or expenditure should be accounted for separately.

Documentation and accountability are the keys to obtaining tax benefits. It is a well-established principle that the tax payer has a responsibility to support all deductions reported. Current rules require reliable written evidence (e.g., canceled checks, receipts). A factor indicating that other written evidence is reliable is the regularity of the taxpayer's recordkeeping procedures.

### VOLUNTEER COSTS DEDUCTIBLE AS CHARITABLE CONTRIBUTIONS

The deductible costs of volunteer work are most commonly allowable as a charitable contribution under IRC Section 170. The allowable contribution must be "to" or "for the use of" a qualifying organization. In general, such

organizations are charities that benefit the general public, and have tax-exempt status. Common examples are churches, schools, United Way agencies, medical care organizations, and national fund-raising groups like the March of Dimes, American Cancer Society, etc. The Internal Revenue Service (IRS) publishes a list of specific qualifying organizations which the volunteer may obtain by requesting IRS Publication No. 78, "Cumulative List of Organizations Described in Section 170(c) of the Internal Revenue Code of 1954" from the Superintendent of Documents, U. S. Government Printing Office, Washington, D. C. 20402.

The costs of deductible volunteer work may be sorted into four primary categories: (1) use of personal assets, (2) donation of personal assets, (3) donation of personal services, and (4) travel expenses. The following list gives examples of each category of volunteer costs and classifies them as deductible or non-deductible.

#### COSTS OF VOLUNTEER WORK

	Category and Examples	Deductible (D) Not Deductible (N)
1.	Use of Personal Assets:	
	Use of personal residence for committee meeting	N
	Use of personal automobile to run errands for qualifying organization	D
	Use of personal assets, such assets not consumed by the use	N
	Use of personal assets, where the asset is totally consumed by the use	D
2.	Donation of Personal Assets:	
	Donation of property to organization	D
	Donation of property to committee for benefit of organization	D
	Food and beverage served at committee meeting in personal residence	D
3.	Donation of Personal Services:	
	Value of personal services, i.e., value of the time the volunteer spends	N
4.	Travel Expenses:	
	Travel expenses incurred on behalf of qualifying organization provided there is no significant element of personal pleasure, recreation, or vacation in such travel	D
	Travel expenses to attend meeting of a	

### Use of Personal Assets

A cost frequently incurred by the volunteer is the use of personal assets in work for the benefit of a charity. Committee meetings are held in the volunteer's living room; personal typewriters are used to type newsletters, letters, etc.; personal camping equipment is used by the Scouts; and so on. Since the Code disallows contributions of "the use of property," a deduction may not be taken for any of these items. The property must be totally given to the charity or consumed by its use in the volunteer work.

### Donation of Personal Assets

Any donation of personal assets to a charity or personal assets consumed in volunteer work for the benefit of a charity may be deductible. The amount of the deduction will be the fair market value (FMV) of the item. Thus, while the use of a typewriter to prepare a local PTA newsletter is not deductible, the cost of the typewriter ribbon (presumably its FMV) that is consumed (used up) in the typing of the newsletter is deductible. Similarly, the use of the living room for a committee meeting is not deductible, but the cost of the coffee and doughnuts that are served is deductible. The key point is that the asset must be consumed for the benefit of the qualified organization or donated to the organization.

### Donation of Personal Services

Many volunteer organizations rely heavily on donated professional services from members or friends. Although such donated services have tremendous value and are necessary for the functioning of the volunteer organization, the Code has consistently taken the position that there is no deduction for their value, even when donors provide services for which they are normally paid (e.g., a lawyer donating legal services).

### Travel Expenses

Travel related to volunteer work may result in deductible charitable contributions. The primary requirement to obtain a deduction is that the volunteer must travel in order to render services for the organization, not merely to attend a related meeting. If the travel requires the person to be away from home overnight, the rules common to business travel apply. Because of these rules, there is no deduction for the cost of food eaten by the volunteer while attending a meeting related to the volunteer work, unless it is necessary for the person to stay away overnight. For example, if a volunteer from Richmond drives to Washington on a matter related to volunteer work, the cost of driving to the meeting is deductible (gas and oil are consumed by the car), but there is no deduction for food unless the volunteer stays overnight. Also, no deduction for travel expenses is allowed if personal pleasure, recreation, or vacation is a significant element of such travel.

This requirement as it relates to the rendering of services means that

the volunteer must be attending the meeting in some official capacity with a specific charge or service to render for the organization. For example, if a person travels to New York to attend a church service, that travel has no official connection with the rendering of services for the church and is not deductible.

#### DOCUMENTATION OF CHARITABLE CONTRIBUTIONS

Documentation of a charitable contribution is generally adequate if it includes the amount expended and verifies that the organization benefited from it.

The IRS regulations require specific information for any contribution of property to a charity. That information must include:

- a. Name and address of the organization
- b. Date and location of the actual contribution
- c. Description of the property and its physical condition
- d. Fair market value of the property and method used to determine such value
- e. Cost or other basis of the property
- f. Any conditions attached to the gift

For other details for special property contributions, get Publication 526 from the IRS.

Documentation of the deductible costs of volunteer work is similar to the documentation of any business expense. The basic questions to be answered are: What organization was the work done for? What costs were involved? When was the amount given? How much was given? The worksheet inside the back cover suggests a simple method of accounting for the deductible costs of volunteer work.

The method selected for use of the suggested worksheet will depend upon the type of volunteer work and the number of transactions. If the:

1. Volunteer work is heavy and the number of organizations is large:

Prepare a worksheet for each organization. Staple the worksheet to a large, 9 x 12 brown envelope and set up manila file folders for each organization. On the outside of the file folder, record the names, addresses, and telephone numbers of officials of the organization. Keep this mini-directory up to date. If the dollar amount is large (over \$200) for any one organization, request a letter from the organization (on letterhead, if available) at the end of each year to be kept in case your tax return is audited.

2. Volunteer work involves very little time and few transactions:

Prepare the worksheet on a sheet of paper and keep it in a convenient place (e.g., in the telephone book, on a noteboard, or in a file labeled "contributions"). If two or three

organizations are involved, use separate headings to identify each organization.

3. Volunteer work is heavy (many transactions) but the number of organizations is small:

Prepare a separate worksheet for each organization. Staple the worksheet to a business-size or larger envelope. Set up a file for volunteer work (use a manila file folder or a 9 x 12 brown envelope). Record each transaction on the worksheet and use the attached envelope to file available receipts.

### Travel Costs

If volunteer work requires travel out-of-town and overnight, supporting documents for costs incurred must be kept. These requirements include ticket stubs for all public transportation (if normally available), parking and tolls, and receipts for all lodging and any expenditure of \$25 or more. At the time of travel, the purpose of the travel and work performed for the organization should be noted on a special travel worksheet. Because of the disallowance of travel costs when personal pleasure, recreation, or vacation is significant, time spent on organizational duties becomes a critical factor.

### Use of Personal Automobile

The volunteer often uses his personal automobile to attend special committee meetings (to be distinguished from social gatherings which are not deductible since personal benefits are presumed greater than benefits to the organization). An entry should be made on the worksheet, recording the miles driven under the appropriate heading, and the purpose for the use of the car. If available, the actual cost of the oil and gas consumed may be recorded. If this amount is not available, and it normally is not, a rate of \$0.12 per mile may be used. An additional \$0.06 per mile can be claimed on the State of Virginia return. Any parking fees or tolls should be added to the cost allowance for gas and oil. Depreciation and insurance on the vehicle are not deductible. If you are late and get a ticket for speeding, you cannot deduct the fine.

### Donation of Office Supplies and Inventory

If the volunteer work is performed by a business person, it is likely that part of the cost will involve the consumption of office supplies (e.g., paper, markers, photocopying) or inventories (e.g., a T.V. from an appliance store owner; rope, paint, etc., from a hardware store owner; food supplies from a grocery store owner). There are special rules for charitable contributions of inventory items. If the inventory is owned by the individuals, either a sole proprietor or a partnership, the amount of the charitable contribution is normally the cost to the store owner--specifically, the FMV less the ordinary income that would result if the inventory were sold. However, if the inventory is owned by a corporation, the corporation may, in certain limited situations, take a deduction for the cost of the inventory plus one-half of the appreciated

value (1/2 of the FMV less cost). The deduction may not exceed twice the cost. For example, an appliance store owner donates a T. V. to a home for battered spouses and children. The T. V. normally sells for \$750, but the corporation paid only \$500 for it. The corporation may, therefore, take a deduction for \$500, plus 1/2 (\$750 - \$500) = \$625. This special deduction is allowed only if the property is donated by a corporation and only if the property is used in the case of infants, the ill or the needy. If the volunteer is working in these specialized areas, the additional deduction is available to the volunteer's corporation for any donated inventory. Special rules also apply to corporate donations of scientific property. A discussion of such rules is beyond the scope of this paper.

### Limitations

All charitable contributions are subject to certain limits in the amounts that may be deductible. Costs of volunteer work are no exception. The limits are stated as a percentage of the adjusted gross income (AGI) without reduction for net operating losses.

For most taxpayers, the limit is simply 50% of the AGI. An exception is the contribution of property that would result in capital gain if sold by the taxpayer; such property contributions generally are limited to 30% of the AGI. More detailed information can be found in Publication 526. If the contribution is simply for the use of a charity (for example, the volunteer drives her car for the Scouts), the deduction is limited to 20% of the AGI. Since most taxpayers donate less than 20% of their AGI to charities, these limits rarely will apply.

### DEDUCTIBLE VOLUNTEER COSTS AS A BUSINESS EXPENSE

The costs of volunteer work are deductible as business expenses if the work is associated with the volunteer's trade or business. Normally, such volunteer costs will be deductible as advertising or promotional expenses. The deduction will be for advertising if the volunteer's name or company's name is brought before the public's eye. For example, if a brokerage firm gives away balloons with its name on them at a country club's swim meet, the cost of those balloons will be deductible as a promotional/advertising expense. If an attorney is active in a local United Way campaign, any costs incurred will also be deductible as promotional expenses, i. e., the attorney's presence promotes the lawyer. Similarly, any activity performed by volunteers who rely on contact with the general public (e.g., real estate agents, doctors in general practice, retail store owners, etc.) for their trade or business may deduct volunteer costs as promotional costs. Of course, such persons may also make charitable contributions to a qualified organization. The difference between the two treatments, promotional/advertising vs. charitable contributions, lies in the relationship of the volunteer activity to the volunteer's trade or business and in the type of organization (i.e., to be a charitable contribution, the work must be for a qualified organization). To be deductible as business expense, the work may be performed for any organization.

Treatment as a business expense will be appropriate whether the volunteer is self-employed or is an employee. However, it is more likely that volunteer costs deductible as business expenses would be incurred by self-employed volunteers than by volunteers who are employees.

#### Business Expenses Compared With Charitable Contributions

The most obvious difference between volunteer costs qualifying as business expenses and those qualifying as charitable contributions is the lack of the requirement that the organization be considered a qualified organization. Thus, volunteer costs incurred in a Kiwanis Club fund raising project would be deductible as business expenses, but not as a charitable contribution (The Kiwanis Club is not a qualifying organization).

A second major difference concerns the use of the volunteer's personal automobile. If the costs can be treated as a business expense, the mileage rate allowable is \$0.21 per mile rather than \$0.12. In other words, the use of the personal auto is considered to be business use and qualifies for treatment as business travel.

In other ways, there is no substantive difference in treatment of volunteer costs as a business expense or as a charitable contribution. The use of personal assets and the value of personal services are not deductible as business expenses. Neither are they deductible as charitable contributions. Personal assets donated to an organization may be treated slightly differently. As a charitable contribution, the allowable deduction is the item's fair market value; as a business expense, only the cost is deductible. However, in practice, these two amounts will be the same for most items. Of course, travel expenses are treated the same in either case.

Another difference concerns the limits on deductions. There is no limit to the amount of deductible business expenses allowable, while there are limits for deductible contributions. However, as indicated before, the limit on charitable contributions is seldom a factor for most volunteers.

#### Indirect Support

In volunteer work, a frequent major supporting activity concerns allowing the use of personal or business assets, or sales and purchases between the volunteer and the organization. For example, the volunteer may allow the organization to use a vacation home or woodland as a location for a retreat or an outing that benefits the organization. Additionally, the volunteer may purchase some product or service from the organization at an inflated purchase price (e.g., pay \$1.50 for a \$0.75 hotdog) or sell an item to the organization at a reduced (bargain) price. In each of these cases, the organization benefits greatly.

The tax effects of such transactions will differ. As indicated previously, there is no deduction for the use of property--it is a transfer of partial interest in a nonqualifying transaction. If the property being used is business property, the normal business expenses related to the property may be deducted as business expenses. However, if the property ceases to be used for business purposes, then only the cash or out-of-pocket expenditures may be deducted as charitable contributions. Exactly when the

property used by an organization ceases to be business property and becomes donated property is not clear. Certainly, if the property is used by the organization exclusively throughout the year, it no longer qualifies as business property. For example, a landlord allows United Way to use an unrented storefront for one month. Normal business deductions (depreciation, repairs, etc.) may be taken, but if the property were used for a full year, it would no longer qualify as business property and no deductions would be allowed.

Bargain sales or purchases from charities must be divided into two transactions for tax purposes. If the volunteer pays more than the FMV for a product or service of a qualified organization, the amount in excess of the value is a charitable contribution. Similarly, if items or services are sold to a qualified organization at prices below the FMV, the existence of a charitable contribution will depend upon the sales price. The FMV of the property is first reduced by the sales price. The remaining amount is then reduced by the ordinary income (the FMV less the cost) component. Any remaining amount is a deduction. In effect, for ordinary income property, there will be no deduction unless the bargain sale price is less than the cost to the dealer.

For example, assume that Joe, a car dealer, sells a car that has a FMV of \$6,000 to the Boy Scouts for \$4,000. Further assume that the car cost Joe \$5,000. The allowable deduction would be  $\$6,000 - \$4,000 - (\$6,000 - \$5,000) = \$1,000$ . In addition, Joe must be able to prove that he intended to make a charitable contribution to the Boy Scouts.

In relation to bargain sales and purchases, the FMV is always the key number. However, ascertaining the FMV is a complicated procedure and is subject to extensive review by the IRS. As a result, where large amounts are involved, good appraisals and competent tax advice are essential to assure the deduction.

#### ADDITIONAL INFORMATION

The volunteer may obtain additional information on the deductions allowed as charitable contributions by requesting IRS Publication No. 526, "Income Tax Deductions for Contributions". If additional technical information is desired, the relevant Internal Revenue Code is Section 170 and the regulations thereunder. Tax library materials are organized by code section number; thus, further technical information will be found by reference to Section 170.

In situations where significant tax dollars are involved, the volunteer should discuss the tax implications with a competent tax advisor.



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