Grassroots Fundraising Journal

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Prospect Identification

Several issues of the Journal *have explored the many ways to ask people for money in face to face appointments. We have discussed the approach, the phone call seeking an appointment, and the one to one situation itself. We have also discussed why it is difficult for most people to ask for money, and some ways to overcome one's fears and anxieties about asking. (See Grassroots Fundraising Journal, Vol. 2, Issues 1, 2, and 3.)*

Our occasional feature, Profile of a Major Donor, *seeks to dispel myths about what kind of people major donors are, and to give some viewpoints from the side of the fence that is asked regularly, rather than from our perspective as the askers.*

It is now time to discuss how to identify prospective major donors.

THE UNDERLYING PREMISE of major gifts fundraising is that the most effective way to raise money is for one person to give a gift, and then to ask a peer to make a similar commitment. This approach is effective for two reasons: 1) the chances of the person being asked saying yes are much higher than through direct mail, phone solicitation, or media advertising, and 2) the size of the gift is likely to be larger than gifts solicited through special events, direct mail, or other strategies. Further, the likelihood of the gift being repeated, and even upgraded is also much higher with such personal contact.

Self-sufficient organizations should set as a goal raising 25% of their operating income from gifts of $50 and up. Obviously it is too labor intensive to randomly ask people, so to achieve this goal, a systematic plan must be developed specifying how many gifts are needed, who to ask, and how much to seek from each donor. This article will discuss each of these parts of the major gifts process.

Size of Gifts

The total amount needed for operating expenses varies from group to group, but we will take a sample group and show how to figure out the gift ranges required to meet the goal.

It would be ideal if you could say, "We need 2000 people to give $100 each—will you be one of them?" Then you would send a letter to 2000 people able to afford $100, phone them up after they receive the letter, and get your money. Unfortunately, 2000 people will never act the same way. Some of them would give less than $100, some much more, and most would give nothing at all.

Over the years, fundraising experts have observed a pattern of how gifts come into organizations. Based on that pattern, it is possible to plan what size gifts you will need to meet any fundraising goal, and how many of each size of gift you should seek, as well as how many prospects you will need to ask to insure that one person will give.

The pattern we have observed is this:

- 60% of an organization's income comes from 10% of the donors
- 15-25% of the income comes from 20% of the donors
- The remaining 15-25% of the income comes from 70% of the donors.

In other words, the vast majority of the gifts you get will be small, but the majority of income will be from a few big donations.

To show how this works, let's assume that an organization needs $50,000 from grassroots sources. Based on the principle just described, they will need $30,000 (60% of their goal) from major donors, $7,500-12,500 (15-20% of their goal) from average sized gifts, and the remaining 15-25% from every other fundraising strategy.

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Dear Joan

Dear Joan, *We had a good plan for our fall fundraising campaign and got off to a good start. Then we had a couple of turn-downs, and people got demoralized, and now we're in a slump. How can we revive the enthusiasm we had in September?*

Discouraged in Detroit

Dear Discouraged,

Since it is World Series time, let's take a lesson from the Big Leaguers on how they break a slump. As Philadelphia great Pete Rose says, "This game is mental." He says he gets out of a slump by studying the pitchers, learning from his experiences, and sheer persistence.

In the World Series, batters face unknown pitchers just as you as a new fundraiser face unknown prospects. The way to achieve greatness is to keep trying despite early disappointments. To illustrate, let's look at Pete Rose's record in the five World Series he played in (1970, 1972, 1975, 1976, and 1980).

Game		Average
1	(0 for 16)	.000
2		.157
3		.285
4		.285
5		.375
6		.416
7		.444

In the same way, if you keep your eyes open, your brain turned on, and your morale up, you will get results in your fundraising campaign. As Chicago Cub great Bill Buckner said, "You've got to go out there and decide to do well every day. Don't let an at-bat slip away here and another there. You might lose ten, twelve hits that way, and there goes another good year gone."

Your own brain is the way to break your slump. Decide to succeed, keep trying until you do succeed, then take along new volunteers until everyone on your team has shared the success.

Dear Joan, *How effective are charter trips for fundraising? I notice some organizations sponsoring trips to Montana, the Amazon, the Caribbean, and so on. How do they work?*

Tourist in Topeka

Dear Tourist,

Charter trips can be used to raise money two ways. The most traditional use of charter trips has been by churches and synagogues that organize a trip to visit the Holy Lands, the Wailing Wall, or the missionary they support. Churches use these trips to promote fellowship among the people in the groups, reward the staff (usually the minister and spouse get to go free), and raise money for the church by tacking on a surcharge to the total price of the trip. This is a good way to raise money because the customers get something they want anyway (a nice trip with people they like) and the church gets another way to ask for money from people who can afford to give.

This system could be copied next year for a trip to the Winter Olympics in Yugoslavia in February or to the Summer Olympics in Los Angeles, CA from July 28 to August 12.

Theatre groups can sell trips to see the best new shows on Broadway or in London. Arts groups can sell trips to see special shows like the Vatican Collection or the King Tut Exhibition. Political activists can organize charters around next year's political conventions: the Democrats meet in San Francisco July 16 to 20; the Republicans meet in Dallas August 20 to 23. If you are the fundraiser for an apolitical group in Dallas or San Francisco, you could organize a trip for local people to get *out* of town during the conventions—that should sell out!

The way to make the most money on charter trips is not through the fee for the trip itself, but by using the trip to cultivate major donors. Kathy King, the fundraiser for the Northern Rockies Action Group (NRAG), says that they break even on the expenses for their special outings. These have ranged from rugged mountaineering in the Rockies, trout fishing, canoe trips and backpacking, to visits to Yellowstone National Park, and fool-proof raft trips down the Snake River in Wyoming.

These trips give the NRAG staff and Board members the chance to get the undivided attention of their major donors. The donors get an unusual trip and the chance to learn more about NRAG's work surrounded by the splendor of the most spectacular scenery in the world. Not surprisingly, many of NRAG's staunchest supporters choose one of their trips every year.

Joan Flanagan is the author of the new *Grass Roots Fundraising Book* (1982) and *The Successful Volunteer Organization* (1981), both from Contemporary Books and available through your bookstore.

Questions for the column should be sent to the *Grassroots Fundraising Journal* marked "Attention: Joan Flanagan." Ms. Flanagan regrets that she cannot answer each question individually.

The views expressed in this column are not necessarily the views of the publishers or other contributors to the *Grassroots Fundraising Journal*.

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A second observation concerns gift size, and the number of prospects needed to achieve each gift. The two top gifts need to equal 5% each of the total goal—in this case two gifts of $2500. The rest of the gift ranges for the top 10% of donors are calculated onto a gift range chart, as follows:

GIFT RANGE CHART FOR MAJOR GIFTS

60% of Money Needed

Gift Amount	# of Gifts Needed	Prospect/Donor Ratio	# of Prospects Needed
$2500	2	5:1	10
1000	5	4:1	20
500	10	4:1	40
100	100	2:1	200
50	100	2:1	200
TOTAL $30,000	217		470

The Gift Range Chart is not to be used as a rigid document, or as a blueprint for the major gifts campaign. Its purpose is to show what an average $30,000 campaign would look like. The numbers can be changed—the ranges moved up and down depending on the group. Like a body size and weight chart, it only says what the average healthy person of your size will weigh—not what you *should* weigh. And like body size/weight charts, the gift range chart is meant to be flexible.

Whom To Ask, and For How Much

Once the gift range has been established, you can proceed to figure out where to find these people. Ideally, you would start by getting the top gifts, and work down from there. However, an equally effective process is to start with the highest gift you can get (which might be $50) and work from there. Most people have friends of equal or slightly higher economic well being. If you are a person able to give $50, you will know 5 more people who can also give that amount, and a few able to give $100 or even $500. In turn, the $100 donors will know 5 people able to give $100 and a few able to give $500 or even $1,000. The higher you go in this "circle of wealth," the fewer people there are, and the more likely they are to know one another.

To find prospects, then, start with yourself. Whom do you know who could give $50 or more? (Keeping the size of a major gift at $50 opens up the possibility for a lot more people to become major donors. Almost any employed person can give $50, if they pledge $5 a month.) Recognizing then, that being a large donor is not the exclusive province of the upper-upper class, you begin to find a number of prospects among your own friends and acquaintances. From yourself, you can move out to the Board of Directors, and other volunteers or staff in the organization. Statisticians tell us that every person knows 250 people—no doubt some of these people can give large donations.

Another place to look for prospects is your current list of donors. Do you now have any donors who have given $50 or more? What is the highest gift you have received, and how did it come about? It is not at all unusual for people to send in $50 from a mail appeal; and sometimes people send in large donations based on a radio program or other publicity. If any of these people are in your area, it is perfectly legitimate to contact them to renew their gift, and to ask them to give you the names of 5 to 10 people they think could also give a gift. Ask first if they will ask their friends, and if they don't feel comfortable asking, then ask if you can use their name in contacting their friends.

If you are a person able to give $50, you will know 5 more people who can also give that amount, and a few able to give $100 or even $500.

What To Look For In A Prospect

You are looking for three things in each prospect: 1) evidence that the prospect is *acquainted* with someone in your organization, to establish a link to your group; 2) evidence that the person is *committed* to your cause (in a broad sense) which includes evidence that the person gives money to similar organizations; 3) evidence that the person has the *ability* to make a substantial gift, which includes establishing approximately how much the person can give. When you have positive information about acquaintance, commitment, and ability, then you have a "qualified prospect"—that is someone who can be asked for a gift.

Let's look at each of these factors.

Acquaintance: Someone in your organization either has to know the prospect, or know someone who knows the prospect. The person who finally asks the prospect for the gift does not have to know the person at all, as long as they know someone in common.

Committed: It is critical to be creative and broad-minded about this factor. Often people assume that someone won't give because he or she is a businessperson, or belongs to a conservative church, or is known to vote Republican. In fact, these very things may be clues that this person WOULD give. For example, a pro-choice group was organizing in a conservative farming community. Most of the people were not in favor of abortion; in fact most were right wing in their politics, and strong Reagan supporters. However, the organizer quickly realized that being New Federalists, they would be in favor of "who governs best governs least." This became the theme of the organizing and fundraising: "Who will make the choice about abortion—the government or you?" "Do you want the government to have the power to make these choices for your life, or do you want to exercise the choice youself?" Clearly, as New Federalists, they opted for the latter. As a result, some major contributions have been contributed by members of that community.

In a second example, a man was approached by a suicide prevention group in a town of 50,000 people. The person doing the asking had not done a lot of research on this prospect, and talked in general terms about the problem of suicide in America, the number of suicides and attempted suicides reported in San Francisco, New York, and Los Angeles, the very low age of many suicide victims, and the broad scope of this problem. The solicitor was sent away with a token donation.

When you have positive information about acquaintance, commitment, and ability, then you have a "qualified prospect"—that is someone who can be asked for a gift.

Later that year, another person did more research on this prospect. The prospect was a member of the chamber of commerce, and active in civic affairs. He had lived in this community all his life, and owned a great deal of real estate there. This solicitor made an appointment to see the prospect and told him exactly how many suicides and attempted suicides happened right in that town. He further discussed that some of the suburbs which this man had developed had high suicide rates for no apparent reason. The suicide prevention program, he explained, proposed to address the problem of suicide rates by having on-call counselors available at churches and libraries, and launching a large poster campaign telling people how these counselors could be reached. Posters would be hung in grocery stores ("two of which are yours") and other public places. The solicitor then asked the prospect to underwrite the entire campaign, and walked away with a check of $5,000—exactly what was needed. Obviously, this prospect is not interested if the entire city of Los Angeles kills itself. What matters to him is what happens in his community.

In addition to being broad-minded in talking about commitment, it is important to find out if the prospect gives away money at all. Many people profess to be committed to the environment, or women's rights or civil liberties; however, if they do not make financial contributions to groups representing those causes, they are not good prospects.

Sometimes people wonder how they can find out if someone is a donor. There are several ways. In the course of a conversation, one might ask, "Do you belong to Greenpeace or the National Organization for Women?" If the person says yes, you know that he/she has given to those groups. Many organizations publish a list of their donors in their newsletter—search through those, or if your community has a symphony, opera, or theatre, find the page listing the donors or patrons. From this, you may find out if the person donates. If he/she does, your task is to help him/her decide to donate to you.

Ability: In looking for evidence of ability don't look for the most obvious signs, such as the type of car the prospect drives or the size of his/her house. These are as likely to be signs of debt as signs of wealth. It is more effective to look for signs of disposable income spent spontaneously. For example, would this person ever spend $50, $100, $200 on a single item of clothing? Does this person buy art or antiques? Do they ski or scuba dive, or have other expensive hobbies? Where do they go on vacation? Do they ever go away for the weekend, and how often and where? Do they eat out often in nice places? Are they season ticket holders for the symphony, the football team, or the theatre?

The prospect sheet on the following page gives you a way of gathering this information systematically. You may wish to design a form with questions specific to your community or organization.

Having gathered this information, you are ready to solicit this prospect. It is important to remember that you only need ONE prospect to begin soliciting. As you develop prospects, you may decide that it is not worth visiting people just for $50 or $100 gifts, but in the beginning, those "smaller" large donors will be important.

As you get to know your donors, ask them for names of other donors. For those donors who live far away, write or call them. Other local donors can be visited.

A donor program builds on itself. With careful research, accurate records, and a willingness of volunteers to do face to face soliciting, there is no reason that any organization cannot have a successful major gifts program.

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CONFIDENTIAL

PROSPECT FORM

Name ______________________________

Address: Business ______________________________

______________________________ Zip __________

Home: ______________________________

______________________________ Zip __________

Phone: Business: ______________ Home: ______________

Occupation: ______________________________

Length of time in current occupation, or with current employer: ______________

Approximate salary, or estimated profit from business: ______________

Other sources of income: ______________________________

____

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Other evidence of wealth (owns home, second home, expensive car, vacations, style of dress, other comments): ______________________________

____

____

Marital Status: __________ Children: ____ Evidence of interest in our program: __________

Contact person: ______________________________

Interest in non-profits, including donations to non-profits (Boards of Directors, name listed in symphony or college program): ______________________________

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Who knows this prospect? ______________________________

Cultivation Record:

Date	What happened:	Who did it?

The Cost of People

Evaluating Fundraising Events

GINNY IS THE FUNDRAISER for a non-profit environmental organization in the southwest. Earlier this year she met a musician who offered to perform a benefit concert for her organization. Excited by this stroke of good luck, she proceeded to enlist the aid of the rest of her 10-member staff in coordinating the event. Everyone was intrigued by the idea of a benefit concert and agreed to drop some of their other responsibilities to assist with the publicity, ticket sales, catering and all the other details of the event. When the concert was over, Ginny tallied the costs and receipts and found that the organization had made $2,000. Having heard horror stories about the financial losses of many organizations attempting benefit concerts, Ginny was thrilled by her success. Many months later, however, Ginny realized that there were a number of factors she had *not* considered in tallying the expenses. The major item was staff time. When the value of staff hours devoted to producing the concert were added in, she discovered that the event barely broke even.

What do we learn from this story? We learn that in the non-profit sector, we often ignore the value of staff time. This is a problem particularly obvious in fundraising, and most noticeable in the area of events production.

Even the smallest events take a certain amount of people power to produce. Film screenings are an excellent example. Last year, a feminist organization in San Francisco was offered 100 tickets to a film about women's rights. The organization could buy the 100 tickets at $3 apiece, and sell them at whatever price it chose. It decided to sell the tickets at $6 each. The night of the event, they made $300 profit from ticket sales and $50 from t-shirt and literature sales. The costs tallied by the organization included printing and mailing an announcement to its 500 members, totaling approximately $50. At first glance, then, the organization raised $300.

What about staff time? One person spent one full day getting the mailing out. Her annual salary was $13,000, translating to $53 for the day. Over the course of the three weeks preceeding the film screening, five other staff members (at the same annual salary) spent 4 hours each selling the the tickets, thereby costing the organization an additional $132.50 in staff time. The night of the event, 2 staff members sold t-shirts and literature. Including preparation time, this activity cost $30 in staff time, plus the cost of the t-shirts and literature sold ($15). A second look shows that rather than raising $350, the organization actually raised $69.40.

The question then is—is the profit worth the energy it took to generate it? The answer is: sometimes yes and sometimes no. The only way to answer this question is to evaluate what exactly the organization was trying to achieve in sponsoring the film screening. If the only goal was fundraising, and the organization was trying to raise $40,000 in six months, the film screening was probably not worth the time and energy.

Why does the non-profit sector usually omit the cost of people in evaluating its activities? The answer to this question points to two important facts about social change work.

However, if one of the goals of the event was to increase the organization's visibility in the community, it might have been completely worthwhile. It gave the organization's members an opportunity to show their continued support at a very low cost. Because the theatre held a total of 300 people, 200 non-members of the organization learned about the organization's existence. Because of the content of the film, the event was educational, and had the effect of furthering awareness of the need for feminist organizations among those who saw it. Increasing the organization's visibility to that degree and raising $69.40 in the process might then be considered a worthwhile activity.

Why does the non-profit sector usually omit the cost of people in evaluating its activities? The answer to this question points to two important facts about social change work. The first is that most organizations cannot afford to pay decent wages to their employees. The employees agree to lower wages because of their com-

A corporate executive would never approve a proposed plan without evaluating the personnel costs of implementing it. The non-profit sector should not do so either.

mitment to the organization's work. However, the low wages have the effect of devaluing staff time, a problem that seems to be rampant in the non-profit sector.

The second fact is that very few staff members in social change organizations actually work the hours for which they were hired. A typical work day in social change organizations frequently averages 10-12 hours. While compensatory time is often available, staff members usually accumulate hundreds of compensatory time hours that they never take.

These working conditions obviously lead to "burn out"—a problem that the non-profit sector is only beginning to take seriously. They also lead to the notion that the cost of a person's time is not worth counting in the evaluation of some activities. A corporate executive would never approve a proposed plan without evaluating the personnel costs of implementing it. The non-profit sector should not do so either.

What is to be done? All organizations must realize that effective planning must include being realistic about the costs of staff time. Begin adding a line to your budget that notes salaries for all of the employees who will be involved in any activity. If employees are putting in extra hours to make an event happen, and not getting paid for the time, note the cost of those hours as an in-kind contribution.

The concept of in-kind contributions of staff time should be applied not only to event planning but to overall organizational planning. If a volunteer or a number of volunteers are performing tasks that are vital to the organization's functioning, the budget should include the value of these volunteers' time. What would the organization have to pay if a salaried worker was performing those tasks? The value of the volunteers' time should appear as an expense, and be balanced on the income side of the project as an in-kind contribution.

Including the value of volunteers' time in organizational budgets has three positive effects. First, it gives the organization a more realistic idea of its actual operating costs. Second, such an accounting is impressive to funders, who like to see that there are individuals in the community who value the organization enough to give their time to it. Finally, it gives everyone a greater sense of appreciation for the volunteers.

Volunteers are a gift to an organization, the value of which should never be underestimated. Volunteers are the way to turn a money-losing event into a money-maker. After looking at a fundraising idea and deciding that it would take too much staff time, think about whether volunteers could take on major parts of the work.

Be realistic about the value of people's time. It is one of those well hidden expenses that, once exposed, shed an entirely new light on fundraising events.

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Tying Charity's Hands

By Timothy Saasta

WHILE PRESIDENT REAGAN has urged that private charities take over many of the Government's social welfare functions, his Administration has sytematically undermined the nation's non-profit organizations to try to silence them as advocates for the rights of the poor, women, minorities and the disenfranchised.

The Administration's campaign of budget cuts and executive orders designed to hamper these groups' ability to raise money has its roots in the New Right's campaign to "defund the left." According to Richard Viguerie, writing in Conservative Digest, restrictions on these groups are needed "to stop the billions of taxpayers' dollars that have been going for the last dozen or more years to help advance the liberals' domestic and foreign political agenda." Mr. Viguerie, speaking of the real objective of New Right conservatives, said of the non-profit groups: "Many of these organizations would be rendered totally speechless if there was a 100 percent cutoff of their government funds, because they would go out of business."

Reagan Administration budget cuts will cost non-profit groups $30 billion from 1982-85, according to an estimate by the Urban Institute. Last year, for the first time in nearly a decade, the number of non-profit groups declined, with about 33,000—or 10 percent of the total—going out of existence.

But the Federal cutbacks are no less threatening than two proposed administrative changes that would influence the way these groups raise money and would increase Government control over at least part of the private, non-profit sector.

Non-profit groups derive $100 million annually in donations from the Combined Federal Campaign, in which deductions are made from the paychecks of Federal employees. One Administration action, imposed by executive order in February, requires groups that receive such gifts to spend no more than 15 percent of their budget on "advocacy, lobbying or litigation" on public policy issues. Under the new rules, 85 percent of their money must be spent on certain narrowly defined services, such as recreation, counseling, health care and similar activities that help individuals rather than redressing social inequities. Although a Federal judge declared the order unconstitutional, the Administration is circumventing the ruling by exempting the seven plaintiffs in the case and a select group of organizations that do identical work. Others will have to sue the Government to gain an exemption.

The immediate effect of the President's order is to eliminate about 25 percent of the national charities from the Government's Combined Federal Campaign. Not surprisingly, many of these ousted charities help minorities (NAACP Legal Defense and Educational Fund), women (Women's Legal Defense Fund) and the poor (National Black United Fund) or consumers (Center for Auto Safety). All together, they could lose more than $5 million a year.

The Administration's second proposal—since revised—was issued in January by the Office of Management and Budget. These draconian rules would have prohibited both non-profit groups and businesses that receive Federal money from working in any way to influence public policy, even if the work was paid for with private money. Only through the financially prohibitive means of hiring a separate staff and opening an office of advocacy could a non-profit organization overcome these restrictions.

The initial proposal was withdrawn after opposition from groups as diverse as the Girl Scouts and the National Association of Manufacturers. However, a new proposal not yet published would prohibit non-profit groups from using Federal money not just for advocacy but also for any communications with their members that might involve lobbying on social issues. For example, the proposed rules would prohibit a senior citizens' center from using Federal money to ask for special police protection for its clients.

As many feared, businesses that receive Government contracts are exempted from the new proposal. Howard Phillips, director of the Conservative Caucus, said that including businesses involved "taking on unnecessary enemies."

Unfortunately, the worst may still be ahead. Gary Maloney, who edited another issue of Conservative Digest that was devoted to "defunding the left," said the initial proposal "marks only the beginning of a larger war." Representative Mark Siljander, Republican of Michigan, says non-profit groups should be deprived of their money "by suing them and taking away their tax-exempt status, if possible."

By saying it's all right to feed the poor but not to advocate on their behalf, Mr. Reagan is ignoring the important role charities have played in our history and is taking a disturbing step toward the Government regulation and interference that he supposedly deplores.

From: New York Times, *August 2, 1983.*

Timothy Saasta is assistant director of the National Committee for Responsive Philanthropy.

Tax Strategies of Charitable Giving

By Scoby Zook

Please note: *The tax laws are complex and changing constantly. This article is meant to be a general guide and should be used only in conjunction with competent tax advice based on a specific situation.*

AS A FUNDRAISER, you may have better luck with some donors, or groups of donors, if you know more about the tax strategies of charitable giving. You will probably not be able to coax *any* donor to give solely because of the tax consequences, but if you can point out tax savings, or come up with plan "B" that saves the donor more than plan "A" (for the same donation), you may have a friend for life. Once a donor has decided to give, you may be able to discuss the most advantageous way to effect the gift. It may be as simple as writing a check or it may be more complicated. You may be able to encourage a donor to set up a plan whereby a donation is made *now*, even though your organization will not receive anything until *later*. As the end of the calendar year approaches, people begin to think about taxes, and charitable donations reduce those taxes. Again, please keep in mind that this is a general guide only.

Who may receive a tax deductible gift?

To be deductible, a contribution must be made to a qualified tax exempt recipient. Most likely, your organization will be tax exempt under 501(c)(3), which makes it a qualified recipient. (There are other 501 groups that are tax exempt also.) You, the alert fundraiser, will have several copies of your organization's "determination letter". This is the letter from the Internal Revenue Service saying that you are a tax-exempt organization and may receive donations that will be tax-deductible. Donors contemplating large gifts would be wise to ask to see this letter, because a gift to a non-qualified recipient is non-deductible and therefore will not save a penny in taxes. Another way to show that your organization has received IRS approval is to find the organization's listing in IRS Publication 78, "A Cumulative List of Organizations", available at some libraries. The only problem here is that a new organization is not listed right away and even a well established organization may be inadvertently left out. There should be absolutely no question in anyone's mind whether a gift to your organization is deductible. If you can't find the determination letter for your group, ask the IRS to mail you another copy.

"A" Charities and "B" Charities

For an individual donor or a partnership, what the gift is and to whom it is given can make a difference in their tax gain. For this purpose, charities are divided into two categories, unofficially called "A" and "B" charities. "A" charities are the favored ones, and that is probably what your group is. An "A" charity is, broadly speaking, a *publicly* supported charity, while a "B" charity is a privately supported one. The determination of public vs. private is complicated but if most of your funding comes from fees, dues, memberships, grants, and similar sources, you are probably a public charity. The next section briefly describes the importance of these categories. If there is any question about whether you are an "A" or "B" charity, you should resolve that before raising a penny from any large income donor. Examples of "B" charities are private foundations, veterans and fraternal orders or associations. (Note: Some private foundations qualify as "A" charities.)

"A" or "B" Charities—Who Cares?

For the donor who gives away a large part of his or her income in any one tax year, the difference between an "A" and "B" charity can be crucial. A person is allowed to deduct up to 50% of his or her Adjusted Gross Income in contributions to an "A" charity, but only 20% (at best) in contributions to a "B" charity. Adjusted Gross Income (AGI) is hard to define, but easy to point out. It is line 32 on the 1982 1040 form, and represents, roughly, income before personal deductions. This means that for a donor who has an AGI of $40,000, a gift of 50% of his/her income, or $20,000 to an "A" charity (assuming no other charitable deductions) will be fully deductible. If that donor wanted to give $25,000 instead, the extra $5,000 would not be currently deductible, and would have to be carried to the next year. If the organization were a "B" charity, $8,000 would be the maximum that could be given as a tax-deductible contribution because of the 20% limitation. Furthermore, if a gift to an "A" charity uses up the whole 50% limitation, any gift to a "B" charity will be lost as a deduction, nor is it available to be carried forward.

Obviously, not many people need to be concerned about the limitation of giving half their income to charity—they simply won't be able to do it. Even so, it is good to know about such limitations.

Cash, in the form of a check, is the easiest donation to administer and valuate, but people may have other assets they prefer to part with and which may be worthwhile to accept.

What is a Charitable Gift?

A gift can be almost anything of value except services. Time spent working on behalf of your organization is *not* deductible, regardless of the value. On the other hand, your organization may be the indirect beneficiary of an expenditure that *will* create a deduction for your donor. For example, your donor buys stamps with his/her own money to use for a fundraising mailing and does not ask for reimbursement. She/he may take as a charitable donation the amount of cash actually spent for those stamps and 9¢ per mile for the car trips to the post office. There are many similar "on behalf of" contributions which may come in handy. These are usually (but not always) small donations, and pointing them out will at least create goodwill if not a huge tax deduction. If a board member, or other interested person, travels to an out-of-town board meeting, for example, *on behalf of* your organization, a deduction may be available for those expenses, which may include airfare, meals, and lodging. The IRS has been disallowing these kind of deductions when there is substantial *personal* benefit from the activity in question.

Direct gifts can include—besides checks and cash—stocks, bonds, personal property, real estate, inventory from a business, partial interests in property, and other gifts, which are distinguished as *current gifts*. There are also *deferred gifts*, discussed briefly later.

The rules for current gifts are amazingly complicated, but the general rule is that a donor gets a deduction for the Fair Market Value (FMV) of the donation. The FMV is "the amount that a willing buyer would pay a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of the relevant facts". The valuation for tax purposes is up to the donor *only*. The donor bears the entire weight of proving the value of what has been given. The organization should not engage in valuation of items received. What it should do is furnish a legible receipt, describing the item in detail and encourage the donor to take a photograph of it, have it appraised, and make a note with the following information, per IRS rules:

1) Name and address of recipient
2) Date of contribution
3) Description in detail to identify property and its condition
4) Manner and date of acquisition by contributor
5) The FMV of property and method of valuation used, and copy of appraisal
6) The contributor's cost or other basis in the property

Although people don't always comply, this information is required to be attached to the tax return of the donor if the donor claims a deduction for a contribution (other than cash) of more than $200. Any time someone donates something other than cash, there is a potential disagreement with the IRS; the more documentation the donor can muster the better the chance of hanging on to the deduction. In an audit, the examiners often routinely pass over small amounts and focus on larger amounts, sometimes allowing only a small fraction of the claimed deduction. At that point, it is your donor's word against the IRS's. If you can give guidelines to help *beforehand*, your donor may live to donate again.

Gifts other than cash—Does the form of the gift make a difference?

It makes a big difference, for while the gift may in general be deductible, the amount of the deduction may have to be reduced, depending on what it is, and to whom it is being given. Cash, in the form of a check, is the easiest donation to administer and valuate, but people may have other assets they prefer to part with and which may be worthwhile to accept. By learning about the other forms of tax-deductible gifts, and their tax advantages, you may be able to suggest a donation that your donor had not previously thought of, but which would provide the donor with a larger tax savings than if she/he gave cash.

The most advantageous rules regarding non-cash donations apply to appreciated capital assets owned more than one year. A capital asset for this purpose is almost anything one might own, except for business inventory and a few other items. A capital asset commonly used in charitable contribution is stock in a corporation.

If a donor gives your organization stock that has appreciated in value since he/she bought it, he/she is allowed to deduct the current Full Market Value (FMV) of the stock, and does not have to pay any tax on the increase or "gain" in the value of the stock. If he/she sold the stock, and then gave your organization the cash, while he/she would still be able to deduct the FMV of the stock, he/she would also have to pay a capital gains tax on the income of the sale of the stock. It is, therefore, more advantageous for the donor to give the organization the stock directly. (If, on the other hand, the stock has decreased in value, the donor would probably want to do just the opposite—sell the stock and donate the cash to your organization and take the loss for tax purposes.)

If there is a donation of *tangible* property (paintings, cars or books, for example, but not real estate or anything intangible, like stocks or bonds), the rules are different, and the amount of the deduction depends on the relationship of the gift to the exempt purpose of the organization.

If the gift is related to the exempt purpose, a deduction of the full FMV will be allowed. (Again, we are still discussing assets held more than one year, which have appreciated in value.) If the gift is not related, the deduction that can be taken is reduced by 40% of the long term gain which would have been recognized if the asset were sold.

For example, a donor has a painting, held more than one year, which is worth more than she paid for it. If she were to donate it to a museum, she would be able to deduct its full FMV, as long as the museum put it to use to further its exempt purposes. However, if she gave it to another organization, it might not be a "related" gift, and the deduction would have to be reduced. If the painting were sold by the recipient organization, its use would be considered unrelated, and again, the deduction allowed would be less than the full FMV of the painting. Related uses may not be obvious, as has been shown by recent court decisions. However, if someone proposes to give your organization a large non-cash asset, it is helpful to be aware of the rules governing "relatedness".

The discussion so far has centered on assets owned more than 1 year. If a donation involves business inventory, or assets held less than 1 year, there is usually no advantage in giving the asset over giving the cash. Again, this is not always true: the complexities of this are beyond the scope of this article.

Other Gifts/Other Angles

While creative donors and creative fundraisers will have their own additional ideas for the form of charitable donations, the ideas provided below may be helpful. Sometimes a willing donor may be able to accommodate one of these kinds of donations where a more standard approach may be unsatisfactory. As before, these require careful footwork to achieve the intended result, and they take more work. The following list is not all-inclusive.

Bargain Sales. This is a sale of property to a tax-exempt organization for less than the property's full value, making the transaction part gift and part sale. The donor has both gain or loss (if the loss is allowed) *and* a charitable deduction. There are no unique tax advantages to a bargain sale, but it may be useful when a donor wishes to contribute property but cannot afford to donate the entire property without receiving something in return.

Partial Interests. Much more complex than stated here, but simply put: a donor may give an undivided partial interest in certain types of property and receive a current deduction for that portion donated. This plan allows a donor to retain some use of the property while securing a deduction *now;* the charitable organization gets *some* benefits now, and full benefits when the plan matures. For example, a person may give a one-third interest in a painting worth $12,000 to a museum. The donor should expect to take a deduction of $4,000 in the year of the gift of the partial interest, as long as the museum actually has all the rights of a one-third owner, such as the right to hang the painting four months of the year.

Life Insurance. A donor may have an insurance policy that is no longer needed and may give it to your organization, deducting an amount as a donation. The organization collects upon death, or may be able to make some use presently of the cash value of the policy.

Deferred Giving

If a donor is interested in giving, but cannot part with money or property *now,* perhaps a deferred giving plan will do the trick. This allows the donor a current tax deduction for a gift that will mature in the future. For example, a donor has a substantial amount of stock. He cannot afford to give any of the stock away, since he needs the dividend income to live on. Under a deferred plan, he retains the right to receive the dividends (known as the income interest), while giving away the right to the stock itself (known as the remainder interest). During his lifetime he has full use of the dividend income and upon his death the charitable organization receives *full* use of the stock with no strings attached. In the year of the transfer the donor receives a tax deduction for an amount less than the FMV of the stock, based on a complex formula. This plan may be used for giving a variety of kinds of property (including personal residences). Consult a tax advisor with experience in this area if your donor is depending on you for advice.

These kinds of deferred plans must be arranged in connection with the establishment of a trust (except for some remainder interest plans) and require competent legal counsel to set up properly. There are three kinds of trusts that may be used: a charitable remainder annuity trust, a charitable remainder unitrust, and a pooled income fund. Each accomplishes slightly different goals and has different rules. They all involve paying money now to a beneficiary (perhaps the donor) and receiving the underlying properties later. The donor receives a current deduction for the transfer to the trust.

As a fundraiser you will not be directly involved in the establishment of an individual's deferred giving plan to your organization, but you certainly can plant the idea in the minds of these donors who are in a financial position to contribute to you in this way.

Charitable Gifts as part of a Will

So far, the discussion has centered on donations while the donor is still alive, even under the deferred plans mentioned above. A person unwilling or unable to make either a current gift or a trust-managed deferred gift may still be willing to donate something at death, by including instructions as part of his or her will. Outright gifts from a person's estate enjoy special treatment. Regardless of *any* of the limitations discussed earlier, the estate is allowed full FMV as a deduction for any property given to charity. If the estate is large enough to pay tax, and not all estates are, this will again mean less tax paid. A sensitive fundraiser will be aware that not everyone wants to discuss death, but for a donor who doesn't mind speaking frankly, this approach may be perfectly acceptable. A donor may understand that this will certainly be the last time he or she will be able to donate. Also, upon death, any of the three trusts mentioned above may be set up, with various restrictions not applicable to outright gifts.

For an individual donor or a partnership, what the gift is and to whom it is given can make a difference in their tax gain.

What all this should point out to donors and fundraisers alike is that if a donor has a will to give, almost any transaction can work to the benefit of both parties. There needs to be a certain flexibility on the part of the recipient if the donor's plans include a gift later rather than sooner, but that may be the occasion to inaugurate your group's long-range endowment program.

In Conclusion

People get a great deal of satisfaction from giving, and the opportunity to structure that giving to fit the donor's plans can make all the difference. By working as peers, the fundraiser and the donor create an element of partnership that will carry over into the future and to other donors as well.

About the author:

Scoby Zook does tax related work for individuals, partnerships and corporations. He is involved in all phases of tax return preparation, recordkeeping for tax compliance, tax planning and tax audits, both for profit and tax-exempt organizations. He is self-employed in Oakland, CA and is currently working on his MBA (Tax) at Golden Gate University in San Francisco. He is someone who actually likes doing tax work, both from the puzzle angle and the human angle. Probably because he is a former teacher, he also likes to explain taxes, and has done public speaking on various tax topics.

Back Issues of Grassroots Fundraising Journal Available

Many readers have inquired about getting back issues of the *Grassroots Fundraising Journal.* Limited quantities of five of the Journals are available for $2.50 each from the Grassroots Fundraising Journal, P.O. Box 14754, San Francisco, CA 94114. The articles in each issue are as follows:

Volume One, Number Six (December 1982) Record Keeping for Fundraisers; Earth to Board Members; Run For Justice; Fundraising Events (Part Four): Starting At Home

Volume 2 Number 1 (February, 1983)
So You Want Your Board To Raise Money; Four Months on the Road to Peace: A Fundraisers Journey; Record Keeping (Part Two) Research.

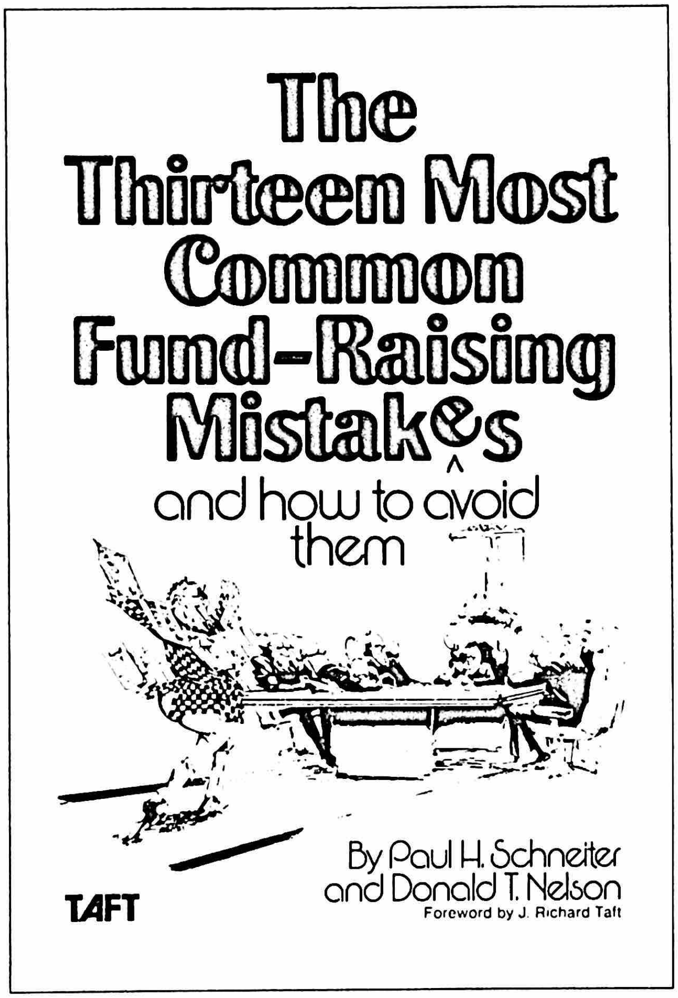
Volume 2 Number Two (April, 1983)
Asking for Money (Part One) Getting Over the Fear of Asking; Evaluating Your Board of Directors; Ideas for Expanding Your Mailing List.

Volume Two, Number Three (June, 1983)
Asking for Money: Part Two: The Fine Art of Asking for the Gift; Summer in the Non-profit World; Expanding Your Board of Directors; Twenty Commonly Asked Questions.

Volume Two, Number Four (August, 1983)
Grammar for Grantseekers; Federated Fundraising: The Issues and a Case Study; Asking Current Donors for Extra Gifts: Why, How, and How Often.

Plus, all the issues include a profile of a major donor, book reviews, success stories, and invaluable advice from our special columnist, Joan Flanagan.

Book Review



The Thirteen Most Common Fund-Raising Mistakes and How to Avoid Them, Paul H. Schneiter and Donald T. Nelson, Taft Corporation, Washington, D.C., 1982, 95 pp.

ATTENTION: DEVELOPMENT DIRECTORS. Just when you are getting depressed about your ability to achieve your organization's fund-raising goals, feeling all alone in trying to achieve them, unacknowledged as a professional, and trying to decide what you are doing wrong . . . find yourself a copy of *The Thirteen Most Common Fundraising Mistakes*, take an afternoon, find a quiet place, and read this book. It may not give you all of the answers you need, but it will probably get you out of your rut, make you feel less isolated, and help you realize that many of the problems you are experiencing are not unique and not entirely yours alone to solve.

What are the thirteen most common fund-raising mistakes? According to the authors, they are: 1) doing everything but asking for a gift, 2) thinking that only the fundraiser should be involved in fundraising, 3) not recognizing that development is a very specialized and full-time activity, 4) avoiding research and record keeping, 5) focusing on foundations and corporations and not on individual givers, 6) ignoring past donors, 7) spending too much money on glossy printed materials, 8) failing to guide and cultivate volunteers, 9) promising too much too quickly as a development director, 10) refusing to recognize factors beyond your control, 11) ignoring sophisticated tax incentives, 12) keeping financial information too much of a secret, and 13) looking upon the work of a development director as "a job" rather than as a cause. Any development director reviewing this list is bound to find something familiar.

The Thirteen Most Common Fund-Raising Mistakes is easy reading. Each "mistake" is presented by way of example. "Larry K., director of a school for retarded children in a Chicago suburb had pursued Mrs. Cleo Jameison ardently . . . Harvey S. is in his third year as the director of development for Bigtown Symphony Orchestra . . . Wally J., director of development for West Coast U. is . . ." The "mistake" is described in detail, followed by sections entitled "Recognizing the Mistake," "Avoiding the Mistake," and "Summing Up." These sections provide extremely helpful analysis and suggestions, and sometimes include samples of materials to illustrate a point.

The authors are sympathetic to the difficult job of being an effective development director in any non-profit organization. While the material is most valuable for development directors, there are sections that would serve as ideal hand-outs to other staff and Board members. In fact, the book is a great document to give to any colleague who seems unable to appreciate the job of fundraising.

This book combines several elements that make it a publication worth buying. It is short, well written, describes the problems thoughtfully and provides some excellent resolutions. To order *The Thirteen Most Common Fund-Raising Mistakes* call or write the Taft Corporation, a company which has published numerous documents on fund-raising and management for non-profit organizations: 5125 MacArthur Boulevard, N.W., Washington, D.C. 20016, (202) 966-7086.

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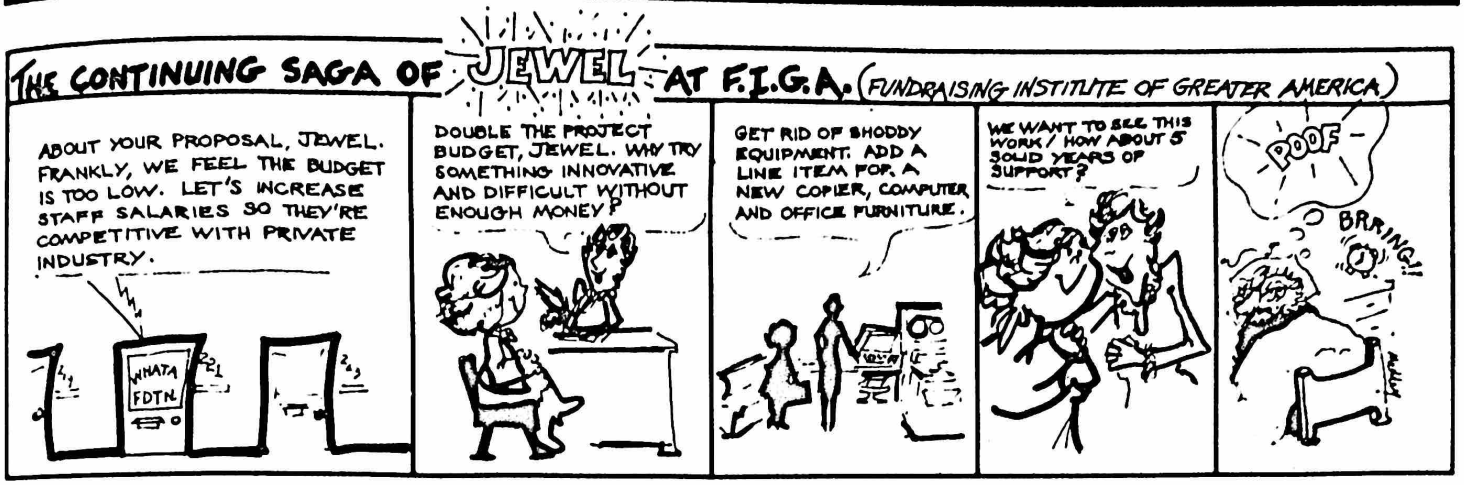

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