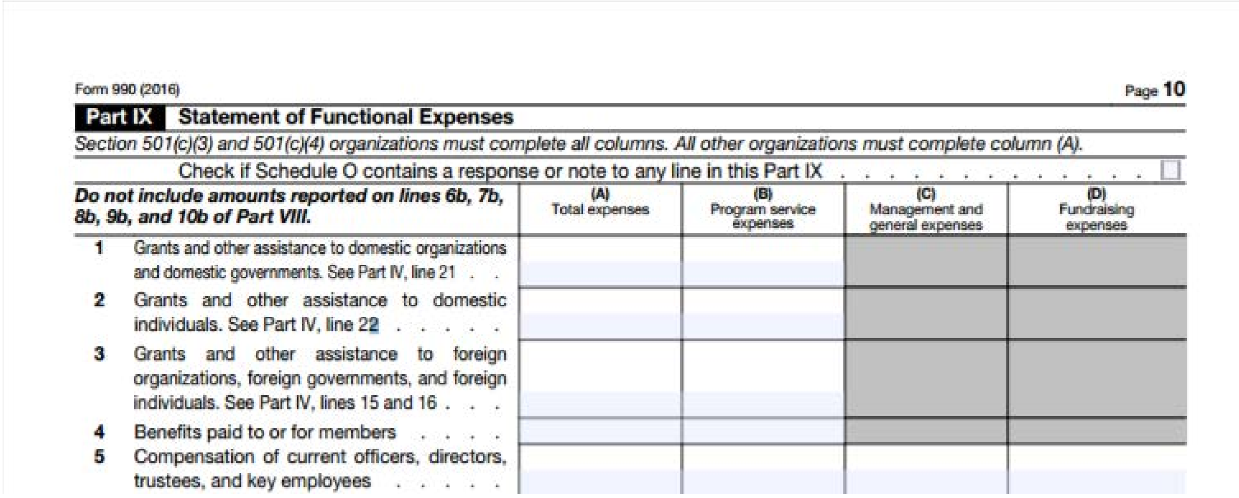
Abuse of Joint Cost Allocation – Misleading Donors by Artificially Reducing Fundraising Expenses

What is Joint Cost Allocation?

- Joint Cost Allocation recognizes that solicitation materials may serve a joint purpose: to solicit your donation and encourage you take a specific action that furthers the charity's programs. The charity may apportion and report solicitation expenses as program expenses in its IRS Form 990 only if it meets specific criteria under Standard of Position 98-2 (SOP 98-2) (now ASC 958-720-45). This is called Joint Cost Allocation.

- Joint Cost Allocation requires that the charity demonstrate that the solicitation campaign meets three tests: the purpose, the audience, and the content tests. Otherwise, all the campaign costs must be reported as fundraising expenses.

How Does it Work on Paper?



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Part IX Statement of Functional Expenses

Section 501(c)(3) and 501(c)(4) organizations must complete all columns. All other organizations must complete column (A).

Check if Schedule O contains a response or note to any line in this Part IX . . . . ☐

Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.	(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1 Grants and other assistance to domestic organizations and domestic governments. See Part IV, line 21 . .				
2 Grants and other assistance to domestic individuals. See Part IV, line 22				
3 Grants and other assistance to foreign organizations, foreign governments, and foreign individuals. See Part IV, lines 15 and 16 . . .				
4 Benefits paid to or for members				
5 Compensation of current officers, directors, trustees, and key employees				

- By properly using Joint Cost Allocation, charities can legitimately reduce reported fundraising expenses (Column D), and instead report them as program service expenses or management and general expenses (Columns B and C).

How Can Joint Cost Allocation Alter a Charity's Financial Picture?

Joint Cost Allocation can dramatically affect the financial picture a charity presents to the public. In the example below, the Attorney General's Office required the National Veterans Foundation (NVF) to amend its IRS Form 990, without using Joint Cost Allocation, because NVF did not meet the requirements for its use. The chart below demonstrates how eliminating Joint Cost Allocation resulted in much lower reported program service expenses (less money reportedly spent on charitable programs) in NVF's amended IRS Form 990.

Fiscal Year	**Program Service Expense using Joint Costs**	**Program Service Expense without Joint Costs**
2008	**$3,577,170**	**$931,030**
2009	**$7,752,823**	**$929,234**
2010	**$5,195,910**	**$1,425,695**

Why Care if a Charity Uses Joint Cost Allocation?

- Because it can be abused to reduce reported fundraising expenses. If a charity spends most of its money to fundraise, you probably would not donate to that charity.

- The charity's reported financial information in its IRS Form 990 can help you evaluate how prudently it spends donations but only if information is accurate. The improper use of Joint Cost Allocation results in a false report of a charity's finances and misleads potential donors and others into believing that the charity operates more efficiently than other charities.

- Potential donors, regulators, and charity rating groups pay special attention to how a charity reports its financial information, including its program service expenses. The Better Business Bureau recommends a charity should generally spend at least 65% of its total expenses on programs (program service expenses).

Consider Joint Cost Allocation Before Donating

IRS Form 990 provides a wealth of information, but program service expenses may be inaccurately reported. Some charities abuse Joint Cost Allocation to look more efficient, while hiding high fundraising costs.

If you receive a charity's solicitation that says it spends only 10 percent on fundraising and 90 percent on program expenses, the charity could be using Joint Cost Allocation. Check the charity's IRS Form 990, Part IX, item 26 "Joint Costs" to see if it reported joint costs. If it did, research the charity further to satisfy yourself that your donation will be well spent.