

## IS YOUR NONPROFIT READY FOR A RAFFLE?

Raffles are popular fundraisers for not-for-profits. But they're subject to strict tax rules. State laws on nonprofit-sponsored raffles can vary significantly, but nonprofits must comply with federal income tax requirements linked to unrelated business income, reporting and withholding.

**UNRELATED BUSINESS INCOME TAX** Nonprofits are required to pay income tax on unrelated business income (UBI), and funds raised by raffles often qualify as such. This is particularly true if you routinely hold raffles and they aren't related to your exempt purpose.

But raffle income can be exempted from UBI tax if the raffle is conducted with "substantially all" volunteer labor. The IRS's unofficial guideline is that 85% or more of the labor should be volunteer. If relying on this exemption, make sure you keep records to demonstrate your level of volunteer support.

**REPORTING OBLIGATIONS** Raffle winnings must be reported when the amount is \$600 or more and at least 300 times the raffle ticket price. You can deduct the amount of the ticket when determining if the \$600 threshold is met. For example, you sell \$2 tickets, and your winner receives \$1,000. Because the winnings (\$998) are more than \$600 and more than 300 times \$2, you're required to report them to the IRS.

File Form W-2G, "Certain Gambling Winnings," with the IRS and provide it to the winner to show reportable winnings along with the related income tax withheld, if any. The winner should provide you with his or her name, address and Social Security number to include on the filing.

**WITHHOLDING REQUIREMENTS** You should withhold income tax from the winnings if the proceeds (the difference between the amount of the winnings and the amount of the wager) are more than \$5,000. If the winnings are in the form of a noncash payment (for example, an automobile or artwork), proceeds are the difference between the fair market value of the item won and the wager amount. When the value of a noncash prize isn't obvious, obtain a valuation before the drawing.

For a noncash prize with a fair market value of more than \$5,000 after deducting the wager, you have two options: The winner could reimburse you for the amount of withholding tax or you could pay the withholding tax on behalf of the winner.

**HANDLE WITH CARE** Raffles can pay off for nonprofits — as long as your organization satisfies the tax and filing requirements. Contact us for more information and assistance.

