

Conducting a Raffle Fundraiser

By Kelly Shipp Simone*

Community foundations occasionally consider conducting a raffle as a way to raise money for a particular fund. The plan may be to do a raffle as a standalone fundraiser or as part of another community foundation event. In many cases, donors approach community foundations asking to conduct the raffle on their own. Whether the raffle is run by the foundation or by interested donors, here are some key issues to think through in advance to ensure compliance with applicable rules.

1. Check your state and local laws:

- Determine if it is lawful for charitable organizations to hold raffles in your state. In many states, a raffle can be a form of “gaming” or “gambling” that is either prohibited or regulated by state or local government. Special permits may be required.
- If raffles are allowed, find out if there are any required registrations, or special rules for holding the raffle. Some states may require that you place statements on the ticket or on promotional materials.
- There are charitable solicitation rules in most states now, some of which regulate raffles, particularly if conducted by nonemployees of the foundation. These rules regulate who can ask for funds on behalf of charities. Find out if the foundation must register to have others solicit and collect money on your behalf. This resource from the IRS has more on [understanding state charitable solicitation requirements](#).

2. Understand IRS requirements:

- **Deductibility:**

Many donors will ask if they can deduct payments for raffle tickets as a charitable expense. Unfortunately, amounts paid to purchase raffle tickets are not deductible as charitable contributions. Foundations should be sure this is understood by those purchasing raffle tickets, and by any donors or volunteers who will help run the raffle activity, before the project gets underway. This information can be printed on the ticket and on other promotional materials.
- **Reporting and Withholding – Form W-2G:**
 - The community foundation must report gambling winnings to the IRS on Form W-2G if (1) the winnings are at least 300 times the amount of the wager (raffle ticket price) and (2) the fair market value of the amount won (minus the cost of the ticket) exceeds \$600.
 - If the winnings fall within these amounts, and the winner refuses to provide his/her social security number to the foundation, the foundation must withhold taxes up to the first \$5,000 of winnings at the current backup withholding rate (check the [IRS website](#) for current rates).

- If the fair market value of the prize, minus the raffle ticket price, is more than \$5,000, the community foundation is responsible for regular gambling withholding. For cash and noncash prizes, such as iPads or trips, the foundation must withhold tax at the current rate and report this on IRS Form W-2G even if the donor provides his or her social security number.
- If the winner does not pay the withholding on noncash prizes valued over \$5,000 (minus the amount of the ticket), the foundation would have to pay the withholding itself at a higher rate. Currently, the rate is 33.33 percent of the fair market value of the prize minus the amount of the ticket.
- **Reporting – IRS Form 990, Schedule G:**
Part III of this schedule is required if the community foundation reports more than \$15,000 of gross income from gaming activities. Reporting includes gross revenue, expenses, volunteer labor, and information about compliance with state gaming laws.
- **Unrelated Business Income Tax (UBIT):**
 - There is no general exception from UBIT for raffle proceeds. However, proceeds are not subject to UBIT if the foundation does not regularly conduct raffles, or substantially all the work for the raffle is conducted by volunteers.
 - IRS Form 990-T is required if gross income from this and other taxable activities equals \$1,000 or more for the filing year.

3. [U.S. postal regulations](#) prohibit mailing of raffle tickets.

The above list contains many of the issues a community foundation will need to consider prior to conducting a raffle. Of course, foundations should always consult with experienced local counsel when embarking on a new activity or when specific legal advice is needed.

Questions? Contact our legal team at legal@cof.org.

Resources

[IRS Publication 3079: Gaming Publication for Tax-Exempt Organizations](#)

[IRS Notice 1340: Tax-Exempt Organizations and Raffle Prizes - Reporting Requirements and Federal Income Tax Withholding](#)

[IRS Notice 1335: Gaming Activities \(Helpful in making UBTI determinations\)](#)

[IRS Publication 598: Tax on Unrelated Business Income of Exempt Organizations](#)

[Creating a Donor-Initiated Fundraising Policy](#)

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