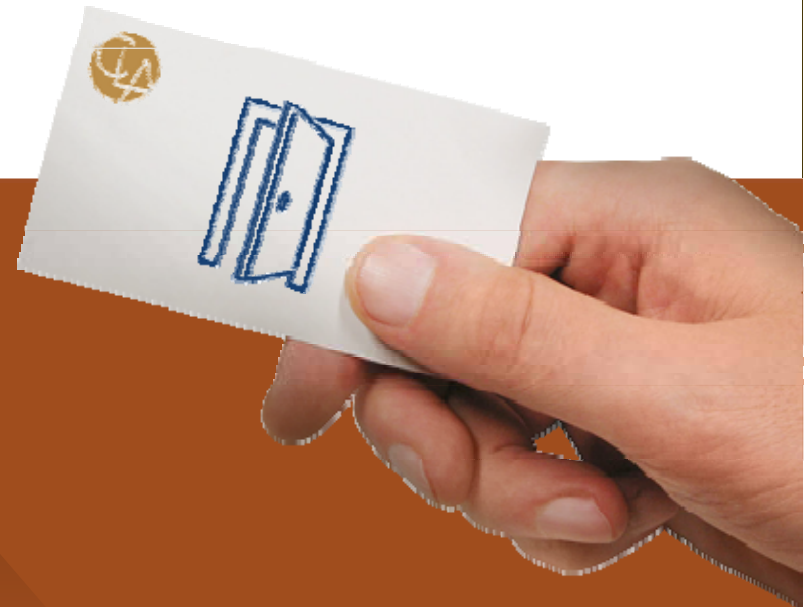


What is Fundraising?



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Learning Objectives

- Understand key IRS terms for fundraising events
- Report fundraising event activity accurately for Form 990/990-EZ
- Report fundraising event activity accurately on Schedule G, Part II
- Differentiate between gaming and fundraising events
- Learn substantiation requirements for donors

Key Terms: Fundraising Events

- Fundraising events and activities are those endeavors with a primary purpose of raising funds for the organization by selling goods or services for more than their direct cost thereby having a contribution component.
- Event refers to the fact that the fundraiser involves some event or activity, rather than being purely a solicitation of funds.
- Examples include but are not limited to auctions, carnivals, concerts, dinners, sporting events

Key Terms: Gross Receipts, Contributions, and Gross Income

- **Gross receipts** include total amounts the organization received from all sources without subtracting any costs or expenses related to the event or activity.
 - Examples: ticket/admission, contributions, auction proceeds, and other sales of goods or services.
- **Contributions** included in gross receipts are the total amounts received where there is no adequate consideration or exchange transaction.
- The **gross income** from the event is total gross receipts less contributions included in gross receipts.

Key Terms: Direct Benefit and Direct Expenses

- **Direct benefit** is the cost or other basis (often estimated fair market value) in an exchange transaction that event attendees receive.
 - Examples: value of auction items and other cash/non-cash prizes, food/beverage, entertainment, value of a round of golf
- **Direct expenses** include direct benefit expenses as well as other expenses incurred by the organization to host the event that are not a direct benefit to event attendees.
 - Examples: printing/postage, decorations, cleaning

Reporting Income from Fundraising Events

- Fundraising events are reported on page 9 of Form 990 in Part VIII - Statement of Revenue and on Schedule G - Supplemental Information Regarding Fundraising or Gaming Activities, Part II – Fundraising Events.
- Income from a fundraising event or activity can generate both event revenue (exchange transactions) reported on line 8a of Form 990, Part VIII as well as contribution revenue (non-exchange transactions) reported on line 1c (at the top).

Income from Fundraising Events

- It's important to capture the contribution amount that exceeds the FMV of the benefit received and report it separately on line 1c of page 9, Part VIII of Form 990.
- The IRS reporting requirements will often result in reporting a loss from fundraising events due to the classification of the two components of gross receipts and the total direct expenses (including direct benefit costs) which will exceed the exchange type revenue.

Income from Fundraising Events: Example

- Example: United Charities, Inc. (United), annually sponsors a concert to raise funds for its charitable programs. United contracts with the local symphony to provide the performance.

Tickets are \$150 and they contain a notation that the concert is sponsored by and for the benefit of United. Tickets for normal symphony concert performances are \$50.

Income from Fundraising Events: Example

The revenue will be classified into:

- The **gross receipts** for one ticket are \$150
- The **contribution** included in gross receipts is the amount that exceeds the FMV of a ticket to the local symphony. This amount is a deductible charitable contribution to the donee, in this case \$100 (Rev. Rul. 67-246). United records this charitable gift of \$100 on line 1c as a contribution from fundraising events.
- The **gross income** (often equivalent to direct benefit) is \$50. United records this on Line 8a as event revenue from fundraising events.

Fundraising Events and Unrelated Business Income

- An annual fundraising event normally does not result in unrelated business income (UBI) because it is not regularly carried on [[Reg. 1.513-1\(c\)\(2\)\(iii\)](#)].



Fundraising vs. Program Service

If an event substantially furthers the organization's exempt purpose is it a fundraising event or program service?

When is Schedule G, Part II Required?

- Supplemental Information Regarding Fundraising or Gaming Activities
 - ANSWER: Organizations that report more than \$15,000 from fundraising event contributions and gross income, Form 990, Part VIII, lines 1c and 8a combined (Part II of Schedule G) And...
 - Answer Yes, to Part IV, line 18

When is Schedule G, Part II Required?

- Part II is looking for the two largest fundraising events with gross receipts greater than \$5,000. The last column reports the number of the other events with gross receipts greater than \$5,000 aggregated. If there are not any others- put “None”
- **Question**: Will Schedule G, Part II tie to the Fundraising revenue amounts reported on Page 9?

Direct Expense from Fundraising Events

- Report the cost (basis) of any items sold at the events and the expenses directly related to producing the fundraising revenue (e. g., include cash and non-cash prizes, rent/facility costs, food and beverages, entertainment, and other direct expenses
 - Note: Indirect fundraising expenses, such as advertising, must be reported on the appropriate lines in Part IX, Column (D) and Not of line 8b of Part VIII.

Tracking Direct Expenses

- On Schedule G – there are only six lines of direct expenses. Each event needs to be tracked separately to inform the IRS and the reader of what the revenue, expenses and net income or loss was for each event.
- Example: Entertainment – record the expenses paid or incurred for entertainment (band, acrobats, magician), including direct labor or wages

What About Form 990-EZ?

- Question: Does a non-profit organization that files a Form 990-EZ, need to report fundraising events?

What About Form 990-EZ?

- **Answer:**
 - Yes, Form 990-EZ, Part 1, lines 6b and the 6b parenthetical on the front of page 1, Part 1. However, only Schedule G would be required if gross income and contributions exceeded \$15,000.

Gaming

- Fundraising events do **not** include gaming.
- Do not include any gaming activities in Part II even if the gaming activity (e.g. a raffle) is held at a fundraising event. If required to be reported, the gaming activity will be reported in Part III, of Schedule G
- FYI: Gaming has different definitions for federal and state purposes.

Raffle or Lottery Ticket Purchase...

- Question: What amount, if any, may be deducted by the purchaser of a raffle or lottery ticket solicited as a charitable contribution?

Raffle or Lottery Ticket Purchase...

- **Answer:**
 - No amount may be deducted by the purchaser of such a ticket. The purchaser of a raffle or lottery ticket acquires something of value as the result of his purchase—the opportunity to win a prize— he is therefore presumed to have received full value for his payment [see *Goldman v. Commissioner*, 46 T.C. 136 (1966), *aff'd*, 388 F. 2d 476 (6th Cir. 1967); Re. Rul. 83-130, 1983-2 C.C. 148]

Reporting Income From Dinner & Auction Example

Getty Art Museum (Getty), a Section 501(c)(3) organization, held a dinner and auction during the year. Event tickets sold for \$300 each (FMV of each ticket was \$75, and 250 tickets were purchased). Direct expenses of \$5,000 were incurred. Ticket sales receipts (\$75,000) and direct expenses (\$5,000) were reported as follows:

Reporting Income From Dinner & Auction Example

Fundraising
event income

- \$18,750 ($\$75 \text{ FMV} \times 250 \text{ tickets}$)

Contribution
income

- \$56,250 ($\$75,000 - \$18,750$)

Direct
expense

- \$5,000

Reporting Income From Auction Example

The auction generated \$20,000 of revenue. The FMV of the items donated to Getty for the auction were \$16,000. Assume the auction participants had a charitable intent for the excess paid over FMV. The auction receipts were reported as follows:

Reporting Income From Auction Example

Donation of
auction items

- \$16,000 FMV

Cash
contributions

- \$4,000 (\$20,000 auction proceeds - \$16,000 FMV)

What is 8c

- \$13,750, net income from fundraising event

Reporting Income From Auction Example

Central Mission (CM), a Section 501(c)(3) organization, received a donation of a home theater system with a FMV of \$5,000 at the time of donation. CM provided the donor with a donor acknowledgement letter upon receipt of the donation. Prior to the auction, CM displayed the system and its \$5,000 FMV so that it was known to bidders. CM sold the system for \$4,000 at the auction and incurred \$500 in expenses related to the sale.

Auction Item Reporting Example

CM should report the original contribution of the system at its \$5,000 FMV on line 1f (and on line 1g). The \$4,000 proceeds from the sale at auction would be reported on line 8a. Line 8b would reflect \$5,500 [\$5,000 cost basis (FMV at donation date) of the system plus \$500 selling expense]. A net loss of \$1,500 would be reported on line 8c from the sale (\$4,000 sales proceeds less \$5,500 from line 8b).

Auction Item Reporting Example

As the result of disposing of the home theater system within three years of its receipt, CM must file Form 8282 (Donee Information Return) unless the system was donated by a dealer from inventory acquired in the year of donation [Reg. [1.170A-1\(c\)\(4\)](#)].

Notification to Donors

- The basic rule of Rev. Rul. 67-246. is that to be deductible as a charitable contribution, a payment to charity must be a gift, that is a voluntary transfer of money or other property that is made with no expectation of procuring a benefit
- The burden is on the taxpayer to show that what was paid to the charity exceeds the fair market value of the goods or services received in return.

What did you learn?

- Keep good records & documentation for Fundraising events
- That the 990 tax reporting can be tricky, but possible
- Keep donors happy by supplying proper written statements/acknowledgements from the organization
 - Include amount of cash contributed & date of contribution

What did you learn?

- Keep donors happy by supplying proper written statements/acknowledgements from the organization
 - Include amount of cash contributed
 - Date of contribution
 - Note what goods and services were provided from the qualified organization as a result of the contribution (other than certain token items and membership benefits)

Keep donors happy

- Describe and give good faith estimate of the value of any goods or services received (as described above) other than intangible religious benefits) and
- Be sure to give this as soon as possible after the event. A donor cannot take a deduction unless they have this acknowledgement in hand before filing their personal tax return, including extensions



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