



## Nonprofit Fundraising Events: Regulations and Requirements

A fundraising event is a fun way to raise money for a good cause and attract more attention to a nonprofit organization. However, they can take a tremendous amount of hard work and financial resources to host. In addition, the government provides extra hurdles to jump through by requiring permits and enforcing specific regulations concerning how money is reported and how taxes are paid. It's important for nonprofits to understand these requirements to avoid unexpected fees and circumstances that could jeopardize the success of the event. Certain types of events that are subject to these regulations include raffles, auctions, gambling, and events that serve alcoholic beverages.

For more information and links to resources on each of these topics, click the links below:

[Raffles](#)

[Auctions](#)

[Gaming and Gambling](#)

[Reporting and Withholding Prizes](#)

[Serving Alcoholic Drinks](#)

In addition to these extra requirements, there might be complicated revenue recognition rules that are specific to your events. DBM is here to help you identify and address those specific reporting requirements. Ensuring your organization is prepared to account for all revenue and expenses properly will save time and tax preparation costs later on.

If you have any further questions about any of the content presented here, feel free to contact our firm for guidance.

Any event in which participants buy a ticket for a chance to win a prize is considered a raffle. Nonprofit organizations are permitted to hold a raffle as long as they meet the following criteria:

1. At least 90% of the gross proceeds from the raffle must be used for charitable purposes, meaning that only 10% of the proceeds may be used to buy the prize(s) and other expenses relating to the event.
2. The organization must register with the Attorney General’s Registry of Charitable Trusts (“The Registry”) prior to conducting the raffle and submit an application fee (\$20).
3. The organization must submit an aggregate financial disclosure report, called a Nonprofit Raffle Report, for every year in which raffle activities are conducted.

Nonprofit religious organizations, educational institutions, and hospitals are exempt from the registration and reporting process, but they must comply with all the laws applicable to raffles. In addition, no raffle activities can take place before receiving a confirmation letter from the Registry of Charitable Trusts, including the sale of raffle tickets.

When to register and file:

- The reporting year for raffles ranges from September 1 to August 31.
- An organization must register by September 1 OR at least 60 days before the raffle event (as it can take up to 60 days for the Registry to process applications).
- The Nonprofit Raffle Report must be filed by October 1 the following year.
- The organization may need to report prizes (cash or noncash) to the IRS and withhold tax. For more information, see [Reporting and Withholding Prizes](#).

### Nonprofit Raffle Resources:

(clicking the links below will open an internet browser)

Form	Due Date
<a href="#">Raffle Registration Checklist</a> (from the DOJ)	N/A
<a href="#">Application for Registration</a>	September 1 or 60 days before the raffle
<a href="#">Nonprofit Raffle Report</a>	October 1 the year following the raffle
<a href="#">CA DOJ - Raffles</a>	N/A

Auctions are another great way to raise money, as bidders can have fun competing against each other as they donate to a worthy cause. However, sales tax must be paid on the items auctioned, and a selling permit may be required.

### Sales Tax

- Only tangible property is taxable. Vacations and services, such as a spa treatment, are not taxable.
- Tax applies to the gross receipts from the sale, even if that exceeds or falls below the actual value of the item. For example, if a participant bids \$1,000 on an adorable oven mitt that's worth \$10, the tax is based on the \$1,000 auction price.
- Sales tax is the responsibility of the organization, either by requiring the donor to pay the sales tax to the organization or by making the payment themselves.  
**Tip:** You can simplify this process by displaying a notice that says "All prices of taxable items include sales tax." This method allows donors to pay for the tax by including it in the total amount they bid. However, the organization must remember to subtract the appropriate amount of tax from the items to avoid paying too much sales tax on the return.
- A sales tax return must be filed each period with BOE. Both taxable and untaxable sales must be reported on the return.

### Seller's Permits

- A seller's permit is required if the organization intends to sell or lease tangible property (more than 3 items in a 12-month period) that would normally be subject to sales tax.
- You may apply for a temporary seller's permit if you plan to make sales for less than 90 days or hold 3 fundraising events or less per year. If you plan on making sales throughout the year, you can apply for a regular seller's permit. There's no difference between the two in their function; it may be easier to obtain a regular permit so you don't have to apply for another temporary permit in the future.
- There is no fee to obtain a seller's permit. Under some circumstances, a security deposit may be required.
- Seller's permits do not expire, but the Board of Equalization may deactivate them if selling activity ceases for a prolonged period of time.

## Recordkeeping and Reporting

- The organization must keep track of the gross receipts for everything sold, even untaxable items.
- The sales tax return for a temporary permit is due on the last day of the month following the month in which the event is held. For example, if an event is held on April 5, the sales tax return would be due on May 31.
- The sales tax return for a regular permit is due on a monthly, quarterly, or annual basis, depending on estimated taxable sales. Even if you owe no taxes and have no sales, you must still file a return.

Certain consumers are exempt from getting a seller's permit and paying sales tax, including nonprofit parent-teacher associations, qualified nonprofit youth organizations, parent cooperative nursery schools, nonprofit veterans' organizations, and friends of the library.

## Donor Acknowledgment

Donations from participants are generally considered a charitable contribution and are deductible on the donors' personal tax returns. If the amount exceeds \$250, they must be acknowledged by a letter from the receiving organization. However, because donors often receive economic benefits through participating in an auction, not all of the payments given may be considered tax deductible. The amount that can be a tax deductible contribution is the amount that the donor paid **above** the market value of the item that is purchased. (For example, if the donor bid \$1,000 on an item worth \$750, only \$250 is considered tax deductible.) Additionally, if a donor contributed items to the auction, the value of the contribution should be determined at market rate, not an arbitrary amount determined by the donor or the nonprofit.

## Nonprofit Auction Resources:

(clicking the links below will open an internet browser)

### [Register for a Seller's Permit](#)

- Select "Register a business activity with BOE" and complete the prompts

### [Sale and Use Tax Regulations for Nonprofits](#)

## Gaming and Gambling

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Gaming events include charity casino nights, poker nights, or other events that involve gambling. These events can be very successful in raising funds and provide easy entertainment for donors. However, the organization must be careful to follow all of the guidelines carefully.

In order to host an event that involves gaming, the organization needs to complete the following:

1. Submit an Annual Registration Form to the Bureau of Gambling Control (BGC) for approval before the event.
2. The registration must be mailed no more than 90 days and no less than 30 days prior to the proposed date.
3. There is a nonrefundable registration fee of \$100.

<sup>1</sup>There are also limitations on the games that can be played and the prizes that can be awarded:

- o Cash prizes to participants who win games are disallowed. However, winners of allowed games may receive a prize that was donated to the fundraiser.
- o Each individual prize cannot exceed \$500, and total cash value of all prizes cannot exceed \$5,000.
- o Only “controlled games,” games that appear on the BGC Standard Game List, may be played at these events.
- o An organization can only hold one gambling fundraiser per calendar year.
- o The organization cannot host any gaming over the internet (but advertising on the internet is okay).
- o No one under 21 can participate.

In addition, the organization may be required to file a W-2G to the IRS as well as withhold tax from winnings. See [Reporting and Withholding Prizes](#) for more information.

In order to insure that the income from the gaming event will not become taxable, the organization needs to make sure that the event is substantially related to its exempt purposes. In order to maintain this status, substantially all the work should be performed by volunteers. Substantially all is suggested to be 85% of the hours worked; however, this figure is applied in a general manner.

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<sup>1</sup> State of California’s Business and Professions Code sections 19985-19987

## Nonprofit Gaming Resources:

(clicking the links below will open an internet browser)

Form	Due
<a href="#">Registration Form</a> (to mail in)	No more than 90 days before and no less than 30 days prior to the event
<a href="#">Registration Form</a> (online submission)	
<a href="#">Nonprofit Gambling Fundraiser Registration Program</a>	N/A
<a href="#">Tax-Exempt Organizations and Gaming</a> (PDF)	N/A
<a href="#">List of allowed games</a>	N/A

## Reporting and Withholding Prizes

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If your event awards prizes (cash or noncash) to the participants at raffle or gaming events, you may be required to report their winnings on a W-2G, withhold tax from the winnings, and file with the IRS by the last day in February of the following year.

The winnings or prize is reportable on a W-2G if the following conditions are met for each type of gaming:

Summary of Reportable Winnings		
Type of Gaming	Winning amount is at least:	Reduce the winnings by the amount of the wager?
Raffles, lotteries, and other wagering transactions	\$600 and at least 300 times the wager	Optional
Poker tournaments	\$5,000.01	Yes
Bingo and slot machines	\$1,200	Yes
Keno	\$1,500	Yes

Participants that need to have their winnings reported should complete a W-9 Form. This way the organization has all the necessary information to complete a W-2G.

<sup>2</sup>Tax withholding requirements:

1. If the prize is more than \$5,000, the organization must withhold 25% (28% if after 2010) from the winnings (less the wager) and report this on a W-2G.
2. If the organization offers to pay the tax, it must withhold 33.33% of the prize and add that amount to the total gross winnings on the W-2G. The withholding percentage is higher because the winner gets the value of the prize and the value of having the taxes paid by the organization.
3. Backup withholding is required (withhold 28%) if the prize meets the criteria in number 1 AND if the winner fails to furnish a correct taxpayer ID number (TIN)

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<sup>2</sup> IRS Publication 3079, Tax Exempt Organizations and Gaming

<sup>3</sup> Summary of Withholding Requirements		
Type of Gaming or Gambling	Regular Withholding (25%) If Winnings Are:	Backup Withholding (28%) If Winner Does Not Provide TIN and Winnings are:
Raffles, sweepstakes, wagering pools, and lotteries	> \$5000	\$600 to \$5,000
Wagering transactions when winnings are at least 300 times the amount wagered	> \$5,000	\$600 to \$5,000
Poker tournaments	N/A if winnings are reported on Form W-2G	> \$5,000
Bingo and Slot machines	N/A	≥ \$1,200
Keno	N/A	≥ \$1,500

### Nonprofit Withholding and Reporting Resources:

(clicking the links below will open an internet browser)

#### Form

[W-2G Instructions \(General\)](#)

#### Due

- o To the IRS: by February 29 following the year of payment or March 31 if filing electronically
- o To winners: by January 31 following the year of payment

[Tax Exempt Organizations and Gaming](#)

N/A

[Form W-9](#)

N/A

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<sup>3</sup> IRS Publication 3079, Tax Exempt Organizations and Gaming

## Serving Alcoholic Beverages

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The Alcoholic Beverage Commission (ABC) oversees the licensing of alcohol service in California. In order to serve alcohol at an event, the organization must have a permit. Nonprofit organizations can apply for a 1-day permit (ABC 221), which acts as a one-day liquor license. The cost ranges from \$25-100 or more, depending on the type of liquor served and the number of dispensing points. The organization can also hire a licensed caterer, who is responsible for maintaining all necessary licenses for serving alcohol. The nonprofit should confirm that the licensed caterer has valid permits and licenses for the event.

Other factors to keep in mind when serving alcohol:

- The event may need to be limited to guests who are 21 and over.
- The organization may be liable to damage caused by guests who consume too much.
- Alcoholic beverages are taxable according to the guidelines discussed above, unless they are included in the price of a meal.

### Resources:

(clicking the link below will open an internet browser)

[California ABC – FAQ Licenses](#)