



## AAUW CALIFORNIA BRANCH FINANCIAL INFORMATION

Provided by Donna Mertens, AAUW-CA CFO, January 14, 2014

There is a Branch and State Finance Tool Kit on the AAUW national website. Please check it out; there is a lot of good information. Included here is information to expand on the tool kit and also information specifically for California Branches.

### INCOME

The standard form of income for branches is "Dues". But, often, there are a variety of fundraising activities conducted by branches. Income includes ALL money received and deposited into your bank accounts. Some branches are using the National Membership Program and submit the member checks directly to National. In that case, only the branch dues become income. The branch dues are returned to the branch by National. This is important when you are filing the Federal and State reports each year. Fees are based on your "gross income."

### FUND RAISING

#### AAUW Funds

Most branches raise money for AAUW Funds, Tech Trek and local scholarships. Our donors expect to be able to deduct their donation from their taxes. AAUW Funds check donations should be made out to AAUW Funds and sent to National with the appropriate deposit form with the donor information.

When you sell tickets for a fund raiser for AAUW Funds some branches deposit the ticket sales locally and deduct the expenses before making a final check to AAUW Funds. Information from the National website addresses "Events with Ticket Sales" (include this link: <http://www.aauw.org/files/2013/06/Events-with-Ticket-Sales.pdf>) In brief, they state:

**When branches hold special events and sell tickets, one of two methods may be used for sending monies to AAUW Funds to stay within IRS regulations.**

**A. Branch Donation** - All income is recorded (gross amount), all expenses are deducted, and the remaining amount (net amount) is sent to national. NO individual members are credited with donations. This is ONE entry for the entire branch as a Special Event.

**B. Individual Donations** - The fair market value (FMV) of the event must be determined and the Event Fair Market Value Worksheet filled out and submitted with the monies to national. Individual donations should be listed minus the FMV, showing only the donation amount allowable for each attendee. (Note: it is difficult to retain funds to cover event costs when using this method)

## **Tech Trek & Local Scholarships**

Tech Trek and local scholarship donations need to be deposited in a 501c3 organization for the donors to receive a tax deduction. AAUW-CA Special Projects Fund is one such entity. The State Board uses SPF for Tech Trek funds. Some branches also use SPF for local scholarship and branch projects. You can find more information about the Special Projects Funds here on the state website. Some branches use college foundations and other 501c3's to receive their tax deductible donations.

## **RAFFLES**

Some branches use "Opportunity Drawings" and "Raffles" to raise money. It is often an easy way to get income. We want to inform you of important compliance requirements under California State law as well as under Federal income tax law.

### **California State Law**

Most opportunity drawings are actually raffles which are regulated under CA State law (Penal Code Section 320.5 and related regulations). The State stipulates that you can hold an opportunity drawing (and not have to file with the State) if all of the following are true:

- 1) It involves a general and indiscriminate distribution of the tickets.
- 2) The tickets given away have the same winning opportunities as the tickets for which a donation is given.
- 3) The scheme does not require any of the participants to pay for a chance to win and that fact is clearly advertised.

Selling tickets and stating that you will give a ticket away for free "if asked" does not comply with these requirements and really is a raffle. Regardless, prizes awarded in an opportunity drawing are treated the same way as prizes won in a raffle in the eyes of the IRS (more on that later). Ticket sales are not a charitable donation, as they represent the purchase of a chance to win, and are considered 100% quid pro quo. You must state on the tickets that "ticket price is not tax deductible".

If participants are required to purchase a ticket in order to have a chance to win a prize, the drawing is subject to the provisions of Penal Code section 320.5 and related regulations as a raffle. According to State law, all raffles must be registered with State of CA at least 60 days before holding the raffle. In addition to filing a registration statement, a financial report must be filed annually with the State.

The financial forms, informative FAQ's and other information about conducting raffles in California can be found at the State's website: <http://ag.ca.gov/charities/raffles.php>.

All raffles must comply with the "90/10 rule" where 90% of the proceeds must go to charity and only 10% of the proceeds may be expended on winnings or raffle related expenses. This is very difficult to achieve, obviously, unless all, or nearly all, of the prizes are donated, in addition to getting the ticket sales proceeds. You may recall "50/50" raffles where you award 50% of the raffle proceeds as a prize to the winner? They are now illegal in California for a charitable entity to conduct under these new rules.

They don't comply with the 90/10 rule. So, if you plan to purchase prizes or award cash from the proceeds of the raffle ticket sales, it is very likely you cannot meet the 90/10 rule.

### **Federal Income Tax Regulations**

The IRS defines raffles as a form of a lottery. As such, a raffle generally refers to a method for the distribution of prizes among persons who have paid for a chance to win such prizes, usually determined by the numbers, or symbols, on tickets drawn. Therefore, opportunity drawings also fall under this definition.

The IRS has 1) filing requirements and 2) tax withholding requirements for raffle prizes.

#### **Filing requirements**

If you plan on raffling 1) items over \$600 in FMV or a cash prize over \$600 **and** 2) if the prize value is 300 times larger than the "wager" (the price for **one** raffle ticket), the Branch is responsible for reporting the winner of the prize, their social security number and the value of the prize to the IRS.

#### **Example 1:**

Jane Triton buys 1 raffle ticket for \$20. Her ticket wins the raffle and gets a prize worth \$1,000.

☑ Test 1: The prize is over \$600 in value

☑ Test 2: 300 times her wager of \$20 is \$6,000, less \$20 or \$5980.

Must we obtain her tax id information and report on her prize winnings to the IRS? **NO**, because the value of her prize was less than 300 times the value of her wager.

#### **Example 2:**

Joe Triton buys 20 raffles tickets at \$1 each for \$20. He wins the raffle and gets a prize worth \$1,000.

☑ Test 1: The prize is over \$600 in value

☑ Test 2: Note: we only look at one wager because only one ticket won. So 300 times his wager of \$1 is \$300

Must we report on his prize winnings? **YES**, because the value of his prize was more than \$600 and more than 300 times the value of his wager.

If we need to report the prize winnings to the IRS, we will need the winner of the prize to complete a tax identification form (form 5754) before they take possession of the prize. Any raffle or opportunity drawing brochures (distributed to patrons prior to a drawing) that describe the prizes and their values, must also have language stating that the winners of the raffle prizes may be subject to gambling winnings reporting and income tax withholding. We do not want our patrons to be surprised.

#### **Tax withholding requirements**

In addition to winnings reporting there is also a tax withholding requirement. Simply put, if the value of the prize is over \$5,000 (net of the value of one wager), we must withhold or collect taxes from the winner before they take possession of their prize, whether the prize was cash or non-cash. As you can

see, this criterion “supersedes” the filing requirements test number “2” if the value of the item is over \$5,000.

### **Cash prizes**

If the prize is cash, a withholding tax of 25% (as of 2010) must be withheld from the winnings. The tax will be on the cash value less the value of the wager.

### **Example:**

Jane Triton purchases a raffle ticket for \$1. She wins a cash prize of \$6,000. Because the proceeds from her wager are greater than \$5,000 (\$6,000 less \$1), we must withhold \$1,599 (\$5,999 times 25%) from the winnings.

We also have filing requirements. We must complete a W2-G form and have the prize winner sign it before we give them their prize.

### **Non Cash prizes**

There are two other methods for collecting withholding taxes from non-cash prizes (such as cars, luxury vacations, etc.) if the prize is over \$5,000, net of the wager.

1) The winner pays the withholding tax via cash, check or credit card. The amount withheld for taxes is 28% of the fair market value of the noncash item, less the value of the wager. We must receive the tax payment before the winner takes possession of their prize.

2) The Branch is willing to pay the withholding tax on behalf of the winner. In this case the tax withholding amount is 33.33% (as of 2010) of the fair market value of the noncash item, less the value of the wager. The withholding tax is higher because the winnings are now higher – they include BOTH the value of prize and of the tax payment made on their behalf.

As with cash prizes, the winner will need to sign a completed W2-G form before taking possession of the prize. As a result, proper and reasonable efforts to determine the fair market value of non-cash prizes, and to document them in detail with sources (such as prices published on websites for services, rooms, dinners, etc., or on eBay if a tangible item, or by formal appraisal if a valuable item) is **critical**. The valuation of the non-cash prizes is the primary determiner of the reporting requirements.

In summary, we must comply with State and Federal law when holding opportunity drawings or raffles. If we hold a true opportunity drawing (giving away chances to win) we may avoid having to file a financial report with the State. However, depending upon the value of the opportunity drawing prizes, we may still have reporting and tax withholding requirements under Federal IRS law. As noted above, under Federal IRS law, there are different tax rates required for different types of prizes. Additionally there are specific tax forms that must be collected from the prize winners at the raffle as well as other forms that must be remitted to the IRS within a designated time period.

Finding out about a raffle **after it was held** does not excuse us from following the State and Federal regulations. If tax reporting is required or if we were responsible for collecting withholding tax, we

cannot use ignorance of the laws as a justification for non-compliance. We must comply, even if it is after the fact. This could create an embarrassing situation for the Branch to ask donors for social security numbers as well as inform donors their prize winnings will be remitted to the IRS.

If a Branch decides to hold a raffle (opportunity drawing) after reading this entire section, make sure you follow not only State but IRS guidelines and all the documentation and reporting requirements you will need to comply with the law.

## **ANNUAL REPORTS**

There are four sets of reports that each branch is required to file annually. First is the AAUW-CA Annual Financial Report. The State organization is incorporated and must include the financial information for all branches in their State Form 199.

### **TAX EXEMPT STATUS REPORTS**

#### **Federal Reports (Form 990)**

Each branch is required to file a Form 990 or 990N. If the branch is a 501c4 organization (as are most of our branches) you have the opportunity to have the National office include your financial information on a group report. In order to take advantage of this, you will need to login to the National website and access the Member Services Database. Once you are on the Branch page, click on the "Branch Exemption Annual Form" to complete your request. The deadline for submission to National is October 15<sup>th</sup>. If you are filing your own 990N, the deadline to send it to the IRS is November 15<sup>th</sup>.

The branch may be required to pay a fee with the report. If your gross income is less than \$50,000, there is no fee. If it is over \$50,000 there is a graduated scale of fees.

#### **State Reports (Form 199)**

The Franchise Tax Board requires the California Branches to file a Form 199 or 199N. It is the equivalent of the 990. The filing deadline is November 15<sup>th</sup>.

The branch may be required to pay a fee with the report. If your gross income is less than \$25,000, there is no fee. If it is over \$25,000 there is a graduated scale of fees. You can find this scale at the website:

<http://www.ftb.ca.gov>.

### **CALIFORNIA CHARITABLE TRUST STATUS REPORT**

In order to legally raise funds in the state of California, each Branch must be registered with the State Attorney General's office. The initial registration cost is \$25 and is filed on Form CT1 found at this website: <http://ag.ca.gov/charities/>.

If your branch is already registered, then you must file the RRF1 annually. This is the Registration Renewal Form and it is due each year on November 15<sup>th</sup>. The branch may be required to pay a fee with the report. If your gross income is less than \$25,000, there is no fee. If it is over \$25,000 there is a graduated scale of fees. The RRF1 form can be found on the above website.