

Tax Considerations for Special Events

Special events can be a good source of revenue for your organization, and annual events can grow into a strong, long-term source of funds. The key is that it takes planning. In this article, we'll cover the potential tax ramifications you need to consider.

First, it's helpful to understand what constitutes a fundraising event in the eyes of the IRS. [The Form 990 instructions](#) note that fundraising events include:

...dinners and dances, door-to-door sales of merchandise, concerts, carnivals, sports events, auctions, casino nights (in which participants can play casino-style games but the only prizes or auction items provided to participants are noncash items that were donated to the organization), and similar events not regularly carried on that are conducted for the primary purpose of raising funds.

The definition goes on to say that fundraising events do not include:

1. The conduct of a trade or business that is regularly carried on;
2. Activities substantially related to the accomplishment of the organization's exempt purposes (other than by raising funds);
3. Solicitation campaigns that generate only contributions, which may involve gifts of goods or services from the organization of only nominal value, or sweepstakes, lotteries, or raffles in which the names of contributors or other respondents are entered in a drawing for prizes of only nominal value; and;
4. Gaming. The revenues, contributions, and expenses from these events are reported on Form 990, Part VIII, Line 8. If the amount is more than \$15,000, it is also reported on Schedule G, Part II.

What You Need to Know Before Planning Events

In these challenging economic times, it is important — if not imperative — to come up with innovative ways to raise funds. Go ahead and innovate, but be aware that the playing field has changed recently.

There are two areas to be aware of as your team plans new fundraising events. First, watch out for unrelated business income and the corresponding filings and taxes for that income. Second, make sure your team and board are well versed on Form 990, specifically the Schedule G instructions.

Traditionally, fundraising events at nonprofit organizations include events like donor banquets, golf tournaments, 100k run/walks, silent auctions, and carnivals. When it comes to special fundraising events, though, the most common source of unrelated business income tends to be from “inadvertent” advertising income. Generally, the most lucrative element of event fundraising comes from corporate sponsorships. The problem occurs when sponsorship revenue crosses the line into advertising income.

At nonprofit organizations, corporate sponsorship income is accounted for as a charitable contribution. But advertising revenue, by definition, is unrelated business income and subject to taxes at rates of up to 35%. If your nonprofit organization receives gross unrelated business income of \$1,000 or more in a given year, you are required to file Form 990-T and pay the related taxes.

Remember, you may have to file a Form 990-T even if you are not required to file a Form 990. The wording in the determination letter for institutions that don't file Form 990 almost always includes verbiage to that effect.

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Corporate Sponsorship vs. Advertising

So what exactly is the difference between a corporate sponsorship and advertising? With a corporate sponsorship you may display the sponsor's logo, use their name, list their product line, and give their address, website, and phone number. You can also award exclusive sponsorship, for example if you designate one airline or one hotel as a sponsor. If you engage in any of the following, however, the income you receive from a "sponsoring" company will likely be deemed advertising and subject to taxes:

1. Advertising (present comparative language, an inducement to buy a product, or discounts)
2. Designating a sponsor as an exclusive provider
3. Providing facilities, services, or other privileges to the sponsor unless they are of "insubstantial value"
4. Granting either exclusive or nonexclusive rights to use the sponsor's intangible asset (e.g., name or logo)

With regard to item #4, "insubstantial value," anything the sponsor receives in return for their sponsorship (greens fees, facilities use, tickets, goods or services, etc.) must have a fair market value of 2% or less of the sponsorship payment. If the value is more than 2%, the entire value of the return benefit is subject to unrelated business income tax (UBIT). More data on corporate sponsorships is available [here](#).

Form 990 and Special Events

The other challenge for special events is Form 990, specifically Schedule G – Supplemental Information Regarding Fundraising or Gaming Activities. Prior to 2008, special events were reported on Form 990, Part I, Line 9 and required a "five-column" reporting format on an attached statement. With the new Form 990, if you have more than \$15,000 in gross income from special events or gaming, or both, you are required to report more information than before. Schedule G, Part II requires detailed reporting for your top two fundraising events and collective reporting for all other fundraising events. You are also now required to show, on Schedule G, the breakout of amounts expended for "cash prizes," "non-cash prizes," rent/facility costs, and other direct expenses for each event.

If that sounds complicated, wait until you see what you need to report in Schedule G, Part III if you engage in fundraising events that the IRS classifies as "gaming." There are columns on the form for bingo, pull tabs/instant bingo/progressive bingo, and other gaming. What, you may ask, is "other gaming"? The IRS's glossary for the new Form 990 offers this definition:

...[gaming] includes (but is not limited to): bingo, pull tabs/ instant bingo (including satellite and

progressive bingo), Texas Hold-Em Poker and other card games, raffles, scratch-offs, charitable gaming tickets, break-opens, hard cards, banded tickets, jar tickets, pickle cards, Lucky Seven cards, Nevada Club tickets, casino nights, Las Vegas nights, and coin-operated gambling devices. Coin-operated gambling devices include slot machines, electronic video slot or line games, video poker, video blackjack, video keno, video bingo, video pull tab games, etc.

If your events fall under this definition, you are required to answer nine special, multi-part questions about these activities, including the name of your "gaming manager" and the compensation and services provided to him or her. The instructions for Schedule G are available [here](#). But if gaming events are held as part of a fundraising event that must be reported on Schedule G, Part II, you may not have to complete Schedule G, Part III. See [IRS Publication 3079, Tax-Exempt Organizations and Gaming](#), for more information.

Overall, it appears to be a great time to hold special fundraising events. So go ahead and get started on innovating, planning, and rounding up help. The more innovative and fun your team can be, the more additional funds you can probably raise to secure the future of your organization. Just be aware that there are pitfalls and work with informed accounting managers to avoid them.

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