

Raffle Question & Answer

"We were thinking of raffling off a tractor that's been donated to raise money for a scholarship. Since the money's being raised for a scholarship, would the tickets people buy be tax deductible?"

The donation of the tractor itself might be tax deductible to the donor, depending on how the gift is made and whether the tractor is donated through the auspices of a foundation (such as the FarmHouse Foundation), properly appraised and ownership is transferred from the donor through the Foundation to the person who wins the raffle, assuming the Foundation is involved with administering the program and approves the format of the raffle.

However, legal counsel advises that US Tax Court has ruled that the purchase of raffle tickets is not a tax deductible gift but is rather a purchase of a chance to own the item being raffled. That doesn't mean that a chapter cannot conduct a raffle to raise money for a scholarship, simply that it needs to be made clear to any alumnus, student or friend of the Fraternity who purchases a raffle ticket that the \$50 or \$100 paid for the raffle ticket is not tax deductible to him/her (that information should be stamped on the raffle ticket itself).

In some cases the alumnus who donates the tractor isn't interested in claiming a tax deduction for it. In such a case, to avoid any confusion about whether a tax-deductible donation is being made, checks for the purchase of the raffle ticket should be written to either the FarmHouse Chapter or Association (both 501(c)7 entities), with proceeds to be set aside in a fund for the chosen purpose (such as a scholarship). If the alumnus who donates the tractor isn't interested in the tax deduction then the proceeds can be used for whatever purpose the alumnus, chapter and association so choose (it could even be for non-educational needs, such as replacing a chapter house roof, down-payment on a 1st chapter house, a renovation project, new dining room tables and chairs). However, in such a case it's important to honor the donor's wishes and make it clear to those who are purchasing a raffle ticket what the funds will be used for.

If the person who donates the tractor does want a tax deduction, then the use of a Foundation throughout the process is essential - the proceeds must be used for educational purposes, whether to establish a scholarship, leadership conferences, computers, etc.

Another option to consider when an alumnus wants to donate a tractor or another item of significant value is to work with an alumnus who is a professional auctioneer to coordinate a benefit auction or have it auctioned off at a tractor or consignment auction. Once properly appraised and coordinated as a gift through the Foundation with proceeds to be used on educational programs, the alumnus can claim the gift as a tax deduction. And whoever purchases the item can claim as a tax deductible gift, any amount above the appraised value. For instance a tractor is appraised at \$5,000. The alumnus who donated could claim a \$5,000 tax deductible gift. The tractor brings \$6,500 in the auction. The person who buys the tractor could claim \$1,500 of the purchase price as a tax deductible gift.

For further questions about making such gifts or determining how to properly arrange them, contact Foundation Executive Director Allison Rickels at Allison@FarmHouse.org or 800-722-1905.