



DIocese OF SIOUX CITY

Parish Accounting

Date: March 20, 2019

To: Bookkeepers and Business Managers, Pastors, Administrators

From: Julie Mahaney

Re: Tax Treatment for Raffles

We are re-issuing the raffle memo as a reminder of the importance in following Federal and State tax regulations in the handling of your auctions, balls, galas and other events that involve gambling activities including raffles, bingo and other games of skill or chance.

During our financial and desk reviews, we frequently find that the bookkeeper or business manager does not have first-hand knowledge of these events. As a result, the most common problems we find are that the required federal and/or state withholding is not deducted from the prize, the IRS Form W-2G is not given to the winner and/or submitted at year end to the IRS with the Form 1096, and/or the appropriate licenses and permits were not obtained. The purpose of this memo is to explain what needs to be done to prepare for your event. Start early to ensure everything is in order!

How to Prepare for Your Event:

1. If the event is being organized by a volunteer or parish or school sponsored organization, the group should 1st obtain approval from the finance council and/or school board.
2. Involve the location's business office who will obtain the necessary paperwork, complete the tax reporting and issue the tax acknowledgements. The volunteer or parish or school group does not have the authority to issue these on behalf of the location.
3. Obtain the necessary State approvals before the event takes place. According to the Iowa Department of Revenue, gambling activities conducted by churches and most charitable organizations are taxable regardless of how the proceeds are used. The gross receipts from almost all gambling activities conducted in Iowa are subject to Iowa sales tax and local option sales tax, if any. The required permits that must be obtained include:
 - A Social and Charitable Gambling License from the Iowa Department of Inspections & Appeals Online Licensing System at <https://dia.iowa.gov/food-consumer-safety/social-and-charitable-gambling> (515-281-6848).
 - A Permanent Sales Tax Permit from the Iowa Department of Revenue Online Business Tax Registration page at www.idr.iowa.gov/CBA/start.asp (800-367-3388).These licenses must be maintained in the location's business office.

Raffle Prizes:

1. Disclose up front when advertising that there are tax implications in winning a prize.
2. The IRS Form W-2G must be issued to the prize recipients when the prize is awarded. Refer to the following instructions on the tax necessary withholding.

3. Obtain an IRS Form W-9 from each winner so you can accurately complete the above W-2G.
4. Checks should be written to the prize recipients with the applicable federal and state taxes withheld for a proper audit trail. Cash prizes should not be given.
5. Do not provide tax acknowledgements for raffle ticket sales or include on the annual contribution statement. The purchase of raffle tickets is not tax deductible (per the IRS).

State Taxes:

1. The amount or value of the prize is subject to state income tax. Winners report this income on their personal income tax returns.
2. **Iowa income tax must be withheld by the location conducting the activity on prizes of more than \$600. The withholding rate is 5%. There is no reduction for the ticket price.** Taxes are payable to the Iowa Department of Revenue, they should not be submitted to Department of Inspections and Appeals (DIA) with your gambling report. Report the Iowa tax withheld on the IRS Form W-2G.
3. The State instructs that property purchased for use as a prize in raffles (i.e., a motor vehicle) is not subject to Iowa sales tax. The winner is not obligated to pay the sales tax either, including the one-time registration fee assuming the winner shows proof to the county treasurer that the vehicle was won. For gift certificates, winners pay sales tax when they make a purchase using the gift certificate.
4. According to the Iowa Department of Revenue, sales tax and local option tax, if any, must be paid on the gross receipts (not net receipts) of all gambling activities. Note however that if the price includes sales tax, back this out of the total sales amount before determining the tax. Review the State website to determine if your location has a local option sales tax in addition to the state sales tax.

We encourage you to consult a tax professional!

Federal Taxes:

1. An exempt organization must report raffle prizes if:
 - a. the prize amount paid reduced by the wager (i.e., the amount a person paid for the chance to win the prize), is \$600 or more; and
 - b. the payout is at least 300 times the amount of the wager.
 - c. The organization uses Form W-2G for this report.
2. Federal withholding at 25% is required if the winnings (less the wager) are more than \$5,000. Report the withholding amount to the IRS on Form W-2G.
3. Federal backup withholding at 28% is required if:
 - a. the amount of the prize less the amount wagered is \$600 or more and 300 times the amount of the wager *and*
 - b. the winner fails to furnish a correct taxpayer identification number (social security number, individual TIN or employer TIN). The IRS Form W-9 captures this info.
4. For Non-Cash prizes (such as a car), if the prize exceeds \$5,000, the winner must pay the organization 25% of the fair market value of the prize minus the amount of the wager.
5. Vouchers given that are to be applied towards an item, such as a car or equipment, should be handled similar to cash prizes regarding federal withholding.
6. If the organization pays the withholding tax required to be withheld as part of the prize, it must pay tax not only on the fair market value of the prize less the wager, but also on the taxes it pays on behalf of the winner. This results in a “grossed up” prize. The organization must pay withholding tax of 33.33% of the prize’s fair market value. The “grossed up” amount of the prize (fair market value of prize plus amount of taxes paid on behalf of winner) is reported in box 1 of Form W-2G, and the withholding tax in box 2 of the form.

We encourage you to consult a tax professional!

Tax Returns/Reports:

1. A state sales tax return is to be filed depending on the amount of sales tax that was entered on the Iowa Business Tax Registration form.
2. If your location has a gambling license, a report must be filed with the Iowa Department of Revenue even if there was no gambling activity during the fiscal year. The report for July 1 to June 30 must be filed by July 30th each year. Coordinate with the State on the requirements of this return and report.
3. The IRS W-2G forms must be transmitted to the IRS with the IRS Form 1096, *Annual Summary and Transmittal of US Information Returns*, by January 31st of the following year. For example, calendar year 2019 1096/W-2G forms must be filed by January 31, 2020.
4. IRS Form 945, *Annual Return of Withheld Federal Income Tax*, must be used to report and send withholding amounts to the IRS. This is NOT the same form used to report Federal income tax withheld and FICA with respect to employees. Form 945 is an annual return due January 31st of the year after the calendar year when taxes were withheld (see #3 for an example). Separate tax deposits are required for payroll and non-payroll withholding.

Frequently Asked Questions (Q) & Answers (A):

Below are questions that we frequently receive and the related answers:

Q #1: The winner did not accept the prize, is a tax acknowledgement given?

A #1: Since the winner did not accept the prize, a tax acknowledgment is not provided.

Q #2: The winner did not accept the prize, however has requested the funds be applied to his/her building fund pledge?

A #2: The funds can be applied to the building fund in general. The pledge can be reduced, however the winner cannot be given a tax acknowledgement.

Q #3: The winner did not accept the prize however has asked that the location maintain the balance in a discretionary fund to use as the winner requests.

A #3: Since the winner did not accept the prize, a discretionary fund should not be maintained to track the use of these funds. The winner does not have control of how this is spent.

Q #4: How should the prize be recorded in the accounting software if the donor does not accept the prize?

A #4: The prize amounts should be recorded as in-kind income and in-kind expense. This can be recorded to the income and expense accounts used for the event.

In reviewing this memo, keep in mind that what may not be a requirement for the Internal Revenue Service may be a requirement for the State of Iowa and vice versa.

In addition to the above requirements, it's also important to have adequate internal controls and safeguards in place for the handling of the raffle and ticket receipts as well as cash donations.

Refer to the Iowa Department of Inspections & Appeals, Iowa Department of Revenue and Internal Revenue Service websites for more information.

Feel free to call our parish accounting office with questions:

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