

## RAFFLES IN ARIZONA

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*Sandi Turner CPA on our team just prepared this report. Things change so be sure to use this only as guidance and check with us on your actual facts before proceeding*

Here is what I know about raffles in Arizona. It is my understanding that a not-for-profit is not required to register their raffle with the Arizona Attorney General's office if they meet the following exceptions:

- it is sponsored by a nonprofit that has been in existence for 5 years;
- no insider receives a direct or indirect pecuniary benefit other than participation on an equal basis with all other participants; and
- no person participates directly or indirectly in the management, sales or operation of the raffle other than the non-profit's employees and agents.

You can call the Arizona Attorney General's office to confirm your raffle does not need to be registered.

For reporting of winnings of prizes -

Non-profit's Obligation to Report Prize Income. The prizes are taxable income to the winners so the non-profit must ensure it properly reports the raffle prizes to the I.R.S. Generally, raffle prizes must be reported on Form W-2G with a copy to the winner if a) the amount paid, reduced by the amount the person paid for the chance to win a prize, is \$600 or more; and b) the payout or value of the prize is at least 300 times the amount of the wager.

Non-profit's Obligation to Withhold from Prize Income. If the fair market value of winnings amount to more than \$5,000, the non-profit must withhold taxes from the winnings and report this amount to the I.R.S. on Form W-2G. The non-profit is liable for any tax it fails to correctly withhold.

Back-up Withholding. If the prize is reportable (the amount paid, reduced by the amount the person paid for the chance to win a prize, is \$600 or more; and b) the payout is at least 300 times the amount of the wager) and the winner fails to supply a taxpayer identification number, then the Foundation must withhold 31% of the total proceeds.

Federal Laws. Federal law strictly limits non-profits from conducting multi-state raffles. If the non-profit plans to use the U.S. mails for any part of the raffle – e.g. for mailing entry cards or raffle tickets – there are federal laws and regulations that bear consideration. Also, the FTC is empowered to regulated certain types of sweepstakes and contests.

Non-profits sponsoring raffles should consider creating raffle rules and treating them as contracts. Drafting detailed rules permits the non-profit to set defined limits on the giveaway – who may participate, what laws apply, warranty and liability disclaimers, etc. Raffle rules also provide a way for non-profits to cancel or modify their obligations in the event that too few tickets are purchased or there are other technical problems. We have also advised non-profits

running raffles to have the raffle winner (or winners) sign an affidavit of eligibility and a release of liability. This is a good place to ensure the winner understands his or her tax reporting obligations and is eligible to accept the prize.