

[Back](#)

Are Gaming Activities Worth the Gamble?

Considerations for Tax-Exempt Fundraising Organizations

by AICPA Not-for-Profit Section
Published May 06, 2016

[A](#) [A](#) [A](#)

 Print Page

[Share This](#)

 Get a free version of Adobe Acrobat Reader

Special events are a popular way to raise money for good causes. When those events include gaming activities, such as bingo, raffles, casino nights and poker tournaments, they can draw big crowds with even bigger pocket books. However, beware: overlooking the compliance requirements can land a not-for-profit organization in hot water with federal and state regulators.



Compliance Considerations

It is important to understand gaming from a regulator's perspective. Most states permit tax-exempt organizations to undertake some sort of gaming activities, but there are limitations that vary from state to state that are designed to protect a state's residents from wrongdoing. Regulators view gaming as a gambling activity because participants are at risk of receiving nothing in return for their amount paid. That being said, certain activities you might think are gaming are not classified as such by the IRS, including opportunity drawings and auctions, whether silent or live.

When conducting a gaming activity, whether separately or at a special event, keep the following in mind:

From an IRS Form 990 reporting perspective, the income and expenses of gaming activities need to be tracked and reported separately.

Even if the gaming occurs at the same event (for example, a raffle drawing at your annual gala), the amounts from the raffle need to be tracked separately. To accomplish this, some organizations will assign separate volunteer(s) the responsibility to sell gaming paraphernalia (like raffle tickets, chips or bingo cards) and keep the cash box and receipts separate from admission ticket sales and donations.

It is most likely that a gaming activity will need to be registered with state, and possibly local, authorities before it is conducted, as opposed to other special events.

Many states limit the organization's ability to spend the proceeds from gaming activities. For example, in California, a minimum of 90% of the proceeds from a gaming activity need to be used in the furtherance of the organization's exempt purposes, that is, its mission.

It is important that the conducting of a gaming activity not result in a recognized loss for the exempt organization since gaming activities do not generate contributions revenue.

Form 990 Reporting

The following Parts/Lines/Schedules of the IRS Form 990 usually need to be completed by an exempt organization conducting a gaming activity:

Part IV, Line 19 asks "Did the organization report more than \$15,000 of gross income from gaming activities on Part VIII, line 9a? If "Yes," complete Schedule G, Part III.

Part V, Line 1b regarding the completion of Form W-2G

Part VIII, Line 1g regarding the receipt of non-cash contributions by the exempt organization

Part VIII, Line 9 unlike other special event fundraisers, there is generally no recognition of contributions revenue since a gaming activity is essentially gambling

Schedule G, Part III reports supplemental information regarding gaming activities and is required if the organization reported more than \$15,000 of gross income from gaming

Schedule M reports noncash contributions, for example, if a raffled item was originally donated to the exempt organization

Consequences of Carrying on Illegal Activities

When conducting a gaming activity, it is essential to ensure that it is being done legally because, if not, then all the income from the conducting of an illegal gaming activity will be classified as unrelated business income that can result in a tax liability. For example, if an exempt organization does not obtain a license or permit to conduct a gaming activity in a particular state, such gaming activity would probably be considered illegal. There are a couple of questions on Schedule G, Part III of the Form 990 (Lines 11-12) which address whether an exempt organization is properly licensed or registered to conduct a gaming activity in a particular state.

Prizes Awarded

Individuals winning a prize, whether cash or non-cash, in gaming activities are liable for personal income taxes on their winnings. Organizations may be required to file IRS Form W-2G to the gaming activity winner by January 31 of the subsequent tax year and to the IRS by the end of February of the subsequent tax year. A Form W-2G generally needs to be filed for a bingo winner winning more than \$1,200 or a raffle winner winning more than \$600 (please note the 300 times wager exception to filing a Form W-2G). Related to the preparation of the Form W-2G, the exempt organization conducting a gaming activity may also have an obligation to withhold amounts from the winnings of a gaming activity participant. This withholding requirement (generally 25%) can be quite problematic when a non-cash item is being raffled by the exempt organization. The exempt organization also needs to be cognizant of the applicable backup withholding rules when a gaming activity winner does not provide the exempt organization with their social security number on a Form W-9.

Other Considerations

Other considerations when an exempt organization conducts a gaming activity are as follows:

You need to disclose prominently on gaming materials such as raffle tickets that amounts paid are not deductible as charitable contributions.

Your organization may need to file IRS Form 5754 if the person receiving the winnings is not the actual winner of the gaming activity or is a member of a group of winners.

You may have a tax liability with respect to the income generated under the unrelated business income tax (UBIT) rules, if the gaming activity is regularly carried on.

You will have a tax liability with respect to income generated if the gaming activity is illegally carried on (for example, not following all the applicable rules regarding the conducting of bingo in a particular state).

It is highly recommended that an exempt organization conducting a raffle have an attorney draft raffle rules (which would include provisions regarding ticket minimums, alternative prizes, etc.)

Additional Resources

The AICPA's Not-for-Profit Section has published various resources related to this topic. Click on the links below to access these new resources.



Special Events: Compliance Issues for Fundraising Organizations

Unrelated Business Income Taxes (UBIT) in a Nutshell

Overview of Form 990 Series of Returns (PDF)

Overview of Laws Regarding Charitable Solicitation & Registration (PDF)

Additionally, there are some good resources in the public domain addressing the conducting of gaming activities by exempt organizations:

IRS Pub 3079 Tax-Exempt Organizations & Gaming (PDF)

IRS Form 990 Resources and Tools

NASCO's Look-up Tool to Locate State Offices that Regulate Charities

This symbol identifies tools and resources available exclusively for members of the AICPA Not-for-Profit Section community. When assessing

premium member-only content within the Not-for-Profit Resource Library, you will be prompted to enter your user ID and validate your Not-for-Profit membership.

[Learn More](#)

To learn about benefits of Not-for-Profit Section membership, visit the AICPA Not-for-Profit Section Membership area.

About AICPA

Mission and History
Leadership
Governance
Accolades
Annual Reports
Affiliates
Jobs at the AICPA
Contact
FAQs
Member Volunteer Groups
Media Center

AICPA Affiliates & Websites

Chartered Global Management Accountants (CGMA)
CPA.com
AICPA Store
International Financial Reporting Standards (IFRS)
This Way to CPA
Start Here, Go Places
Feed the Pig
360 Degrees of Financial Literacy

Journals & Newsletters

Journal of Accountancy
The Tax Adviser
Accounting & Auditing
Authoritative Standards
Business Valuation
Financial Management and Reporting
Internal Control
Personal Financial Planning
Practice Management
Tax
AICPA Newsletters

Copyright © 2006-2016 American Institute of CPAs.

[Contact](#) | [Privacy & Terms](#) | [Jobs](#) | [Help](#)

Powered by

an AICPA Subsidiary Delivering Technology Solutions for CPAs

Join In    