



Raffles, State Tax, Bingo, Income Tax, and Silent Auctions Info

Raffles

These guidelines come from the Charitable Raffle Enabling Act (CREA), effective January 1, 1990. By following these guidelines, your club will be compliant with current **Texas sales tax** and **IRS income tax** rules for 501(c)(3) non-profit organizations such as your club. **Please pay careful attention about Federal income tax implications for raffle winners.**

1. **NEW Clubs may not hold a raffle for THREE years based of State of Texas law.** A nonprofit organization that has existed for at least three preceding years and is exempt from federal income tax under Section 501(c), Internal Revenue Code; does not distribute any of its income to its members, officers or governing body; does not devote a substantial part of its activities to attempting to influence legislation; and does not participate in any political campaign.
2. Your club is allowed up to two raffles during each **calendar year** (January 1-December 31) (**not your club fiscal year**), but you **cannot run two separate raffles at the same time**. Separate raffles mean **two totally separate sets of raffle tickets**. It does not refer to one raffle with several choices on what the winner can receive.
3. No **Texas sales tax** is due whenever the raffle happens. Period. **The sale of raffle tickets representing the right to win an item is not taxable regardless of where, when, or by whom the sale is made. So a club does not collect sales tax on the sale of raffle tickets.**
4. **Each raffle ticket must state: 1) the name of the organization conducting the raffle; 2) the address of the organization or of a named officer of the organization; 3) the ticket price; 4) a general description of each prize having a value of more than \$10; and 5) the date on which the raffle prize(s) will be awarded and method to notify winners.** The address could be a webpage or e-mail address so that participants can find out who won.
5. **No cash prizes can be awarded.** A qualified organization may offer any prize **except money**. "Money" is defined as coins, paper currency, or a negotiable instrument that represents and is readily convertible to coins or paper currency. **That means that participating for a chance for a Book Scholarship ("money") is questionable.** A U.S. savings bond and a prepaid, or "stored-value," credit card is not prohibited. See Tex. Att'y Gen. Op. No. GA-0341 (2005). **The question of the prohibition of a gift certificate has not been addressed**



in an AG Opinion, but it has been suggested that as long as it is not readily convertible to cash, it would likely not be prohibited.

- 6. Raffle tickets may not be advertised statewide or through paid advertisements.** Paid advertising through a medium of mass communication is prohibited. Donated advertising is permissible. Your club cannot actively advertise state-wide (sending notices to clubs and organizations or paying for ads throughout the state) but posting it on your website is not considered state-wide advertising.
- 7.** No one may be compensated directly or indirectly for organizing or conducting a raffle or for selling raffle tickets.
- 8.** Certain raffles are not legal in Texas (except for certain nonprofit groups). If your clubs have questions about the legality of raffles, they can contact the Texas Attorney General's office or local District Attorney's office. The Attorney General's Internet address is <https://www.texasattorneygeneral.gov/>. Under the "Consumer Protection" tab, look for the "Charities and Nonprofits" link.
- 9.** The value of the prize cannot exceed \$50,000 or \$250,000 if the purchased prize is a residential dwelling. Your club must publicize the value of the raffle prize. Please do not use "priceless" as the value. There is no value limit on prizes donated to the organization.

Raffles Regulation Links

<https://texasattorneygeneral.gov/cpd/charities-nonprofits-charitable-raffles>

<https://texasattorneygeneral.gov/faq/raffles-and-casino-poker-nights-in-texas-frequently-asked-questions>

<https://texasattorneygeneral.gov/cpd/charities-nonprofits-charitable-raffles>

<http://www.statutes.legis.state.tx.us/SOTWDocs/OC/htm/OC.2002.htm>

Bingo

Bingo in the state of Texas is considered wagering/gambling. As the parent organization, the Federation will not sign any supporting documentation that may be required to hold a Bingo game. Bottom line – no Bingo for clubs under the Federation umbrella.



IRS Income Tax Implications

Raffle prizes are considered lottery winnings and are subject to Federal income tax for the winner. See IRS Form 1340 for details. Below is a summary:

A. If the value of the prize is less than \$600 OR less than 300 times the cost of the ticket, the winner self reports the value of the winnings. **For example:** A person buys a raffle ticket for \$2 and wins a prize worth \$400. This is less than 300 times the cost of the ticket so the winner is responsible for reporting the \$400 winnings on her income tax form for tax year 2016. Your club has no further responsibility.

B. If the value of the prize is \$600 OR the same as/greater than 300 times the cost of the raffle ticket, your club must fill out paperwork for the IRS for the winner. Form W-2G and Form 1096 must be filed with the IRS by the last day in February 2017 so the IRS can keep track of the winnings. **For example,** A person buys a raffle ticket for \$5 and wins a prize with a value of \$2,000. Since \$2,000 is greater than 300 times the \$5 cost of the ticket, your club must collect information about the winner and send it to the IRS. Please look at these forms and bring copies to Boutique so you are ready to fill them out. Both forms are also due by the last day of February 2017 but since the winner might be from another part of the state, it is important to collect the information before the prize is given to the winner. Your club might want to let the raffle ticket buyers know about possible income tax liability so that the winners are aware at time of purchase. You might want to contact a professional for guidance.

C. If the value of the prize is more than \$5,000, your club must collect money for withholding and your club must send it to the IRS in addition to Forms W-2G and 1096. Please consult a professional under these circumstances.

The language of the law is very technical. If your organization is considering holding a raffle you should check the statute to be sure it qualifies.

An unauthorized raffle is considered gambling under the Texas Penal Code. Conducting such a raffle is a Class A misdemeanor. Participating in an unauthorized raffle is a Class C misdemeanor.

2. *Federal Income Tax on Winners of Raffle Prizes*

https://www.irs.gov/pub/irs-tege/notice_1340.pdf



Live or Silent Auctions

What is Taxable and Not Taxable

For items sold at a silent or live auction, **the club should collect tax on taxable items such as jewelry, books, clothing, flower arrangements and gift items.** If there happen to be any nontaxable items, such as a box of fresh fruit or exempt bakery items; or intangibles, such as a gift card or gift certificate, the club would not have to collect sales tax on those nontaxable items.

If an auction item is a package that contains both taxable and nontaxable items, such as a gift basket with a nontaxable cheese ball or cheese assortment and a taxable cutting board and cheese knife, the application of the sales tax on the selling price of the package depends upon the essential character of the complete package. If the taxable items, cutting board and cheese knife, are the primary component of the package and a single charge is made for the package, the entire sales price of the package is taxable.

If the nontaxable food items, in this case the cheese ball and cheese assortment, are the primary component of the package, the entire sale is exempt unless a separate charge is made for the taxable items. If you make a separate charge for the taxable items, the separate charge is subject to tax.

If you have any questions or need additional information, feel free to submit them online at <https://comptroller.texas.gov/taxhelp/> or call Texas Taxpayer Services section at (800) 252-5555.

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