

Western Illinois University Foundation

Policy on Raffles

Effective Date: December 10, 2014

Responsible Departments: WIU Foundation

Policy on Raffles (Including Cash and Non-Cash Prizes)

Introduction

Expenses for raffles are allowable from Foundation funds within the following guidelines. Foundation funds are defined as all Foundation accounts (accounts that begin with an 8).

This policy applies to students, employees, and any other representatives who conduct raffles under the auspices of the WIU Foundation ("Foundation") or any raffle for which the Foundation receives the proceeds. This policy is intended to inform and does not constitute legal or tax advice. Individuals who win raffle prizes should consult with their attorneys or tax professionals for advice on personal circumstances.

In order to initiate the approval process for a raffle, you must complete a Raffle Registration Form, which can be found at Foundation Website ([http://www.wiu.edu/Foundation and development/pdfs and docs](http://www.wiu.edu/Foundation_and_development/pdfs_and_docs)). This form identifies the organization hosting the raffle, where proceeds from the raffle will be deposited, contact information, raffle date, prize description and value. The form also has a space for approval signature from Vice President or President, depending on the prize value. Submit the completed form to the Office of the Vice President for Finance and Administration, Sherman Hall 200.

The University had a Raffle Policy separate from the Foundation. The University's Raffle Policy can be viewed at www.wiu.edu/policies/gifts.php.

A. Overview

- I. According to 230 Illinois Compiled Statute (ILCS) 15, "The Raffles Act," and 720 ILCS 5/28-2, a raffle is defined as a form of lottery in which:
 - a. "The player agrees to pay something of value for a chance, represented and differentiated by a number or by a combination of numbers or by some other medium, one or more of which chances is to be designated the winning chance;
 - b. The winning chance is to be determined through a drawing or by some other method based on an element of chance by an act or set of facts on the part of

persons conducting or connected with the lottery, except that the winning chance shall not be determined by the outcome of a publicly exhibited sporting contest."

The Internal Revenue Service (IRS) requires federal income tax withholding and reporting for raffles conducted by tax-exempt organizations in certain circumstances described in detail below.

B. Limits and Approval

- I. Raffles for which the prize (cash or non-cash) is expected to be valued at \$599 or less require approval of the appropriate Vice President.
11. Raffles for which the prize (cash or non-cash) is expected to be valued at \$600 or more require approval of the President. For prizes \$600 and above, the reporting requirements described in sections D, E, and F below may apply.

C. Sponsoring Organization's Obligations

- I. Regardless of the amount of the raffle prize (cash or non-cash), the organization conducting the raffle should notify the Office of the Vice President for Finance and Administration (VPFA) of the intent to hold a raffle. This office can be reached by phone at 309/298-2073 or in Sherman Hall 200.
 - a. Notice should be given to VPFA thirty days prior to the date of the raffle drawing.
 - b. VPFA will issue a raffle registration form for completion.
 - c. Upon receiving the completed form, VPFA will ensure proper Vice Presidential or Presidential approval based on the anticipated value of the raffle prize.
 - d. If applicable, VPFA will also distribute the appropriate IRS forms to the contact of the sponsoring organization.
- II. Include the following statement in all marketing or promotional material regarding the raffle: "Winners will be responsible for all taxes associated with prizes."
- III. At the time of the raffle drawing, before the winner receives his/her cash or non-cash prize, the sponsoring organization must ensure the following:

- a. The winner has provided his/her name, address, and social security number (SSN) or Individual Taxpayer Identification Number (ITIN). If the winner refuses to provide this information, an attempt should be made to collect this information by sending the winner a copy of Form W-9, "Request for Taxpayer Identification Number and Certification."
 - i. Please contact the Foundation Office at 309/298-1861 to get the appropriate forms.
- b. The winner has completed the appropriate Federal and State tax forms as described below;
- c. Once identifying information and forms are collected, they should be sent to the Foundation Office in Sherman Hall 303; and
- d. If applicable, the proper amount of tax is withheld or collected from the winner prior to giving the prize.

D. Reporting Raffle Prizes

- I. IRS Notice 1340 (March 2005) outlines requirements and examples associated with reporting raffle prizes.
- II. An exempt organization must report raffle prizes if:
 - a. The amount paid, reduced by the wager (the amount 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.

Example: Susan purchased a \$1 ticket for a raffle conducted by a Foundation organization. On October 31, 2006, the drawing was held and Susan won \$900. Since the amount won reduced by the wager is \$899 (\$900 - \$1), and the payout is \$900 times the wager, the Foundation must file Form W-2G with the IRS and give a copy of the form to Susan.
- III. The person receiving raffle winnings must furnish the Foundation a statement on Form 5754 made under penalties of perjury stating his or her identity and the identities of any others entitled to the winnings.
- IV. The Foundation will issue Form W-2G to the winner by January 31 in the year following the year of the raffle and will issue the same form to the IRS by the last day of February.

E. Federal Income Tax Withholding on Raffle Prizes.

- I. Tax must be withheld on individual raffle prizes exceeding \$5,000. The current withholding rate is 25%, and the tax amount will be reported to the IRS on Form W-2G. If the Foundation fails to withhold from the winner, it becomes liable for the tax.

Example: John purchased a \$1 ticket for a raffle conducted by the WIU Foundation. On October 31, 2006, the drawing was held and John won \$6,000. Because the proceeds from the wager are greater than \$5,000 (\$6,000 prize less the \$1 ticket cost), the Foundation must withhold \$1,499.75 ($\$5,999 \times 25\%$) from John's winnings. If the Foundation fails to withhold \$1,499.75 before distributing the prize, it is liable for the tax

- II. Backup withholding: If the winner fails to furnish a correct taxpayer identification number (social security number, individual taxpayer identification number, or employer identification number), the Foundation is required to withhold 28% of the total proceeds.
- III. Non-cash Prizes: For non-cash prizes valued at \$5,000 or greater, the winner must pay the Foundation 25% of fair market value of the prize minus the amount of the wager.

- a. Fair Market Value can be defined as the amount for which the prize could have been sold at the time the raffle was conducted.
- b. Useful information on determining the fair market value of an item can be found in IRS Publication 561, "Determining the Value of Donated Property."

Example: Jason purchased a \$1 ticket for a raffle conducted by a Foundation sponsored organization. On October 31, 2006, the drawing was held and Jason won a car worth \$10,000 (fair market value). Because the prize exceeds \$5,000 and the fair market value of the car is \$10,000, the tax on the fair market value of the prize is \$2,499.75 [$(\$10,000 \text{ minus the } \$1 \text{ ticket cost}) \times 25\%$]. Jason must pay \$2,499.75 to the Foundation for remittance to the IRS on his behalf.

F. Illinois Department of Revenue (IDOR) Reporting and Withholding Requirements

- I. For raffle prizes valued at \$1,000 or more (less the amount of the wager), the IDOR requires winners to complete IDOR Form IL-5754, "Statement by Person Receiving Gambling Winnings." The completed form should be submitted to Foundation in Sherman Hall 303. This form is not filed with IDOR, but the Foundation must retain a copy.
- II. If the raffle prize (less wager amount) is valued at \$5,000 or more and the winner is an Illinois resident, the Foundation is required to withhold tax. The current full tax rate is 3%. Tax will be withheld before the prize is paid to the winner. The winner is required to prepare Form IL-W-4-G, "Gambling Withholding

Exemption Certificate.” Completed tax forms can be submitted to Foundation in Sherman Hall 303. The Foundation will keep a copy and will file a copy with the IDOR.

III. Illinois income tax withholding is not required for nonresidents.

G. The purchase of non-cash raffle prizes is permissible from non-appropriated funds. Purchases with a retail unit value less than or equal to \$100 require fiscal agent approval. Prizes with retail unit values greater than \$100 but less than or equal to \$300 must have the pre-approval of the President or respective vice president. Prizes with retail unit values greater than \$300 must have the pre-approval of the President.

H. Auctions

- I. For tax purposes, an auction is not considered a raffle or gambling.
- II. For auctions, there are not the same tax reporting or withholding responsibilities as with raffles.

I. Nonresident Aliens

- I. Raffles won by nonresident aliens are reported on Form 1042-S, “Foreign Person’s U.S. Source Income Subject to Withholding.”
- II. Regardless of the amount, winnings are subject to Federal income tax at a rate of 30%.
- III. Some nonresident aliens may be able to claim exemption from Federal income tax under a United States tax treaty if one exists with the country of citizenship of the nonresident alien. To take advantage of the tax treaty, the proper paperwork must be processed before the raffle prize is distributed. Form 1042-S will be filed with the IRS and a copy will be issued to the winner by March 15 of the following year.

J. Helpful Resources

- I. Instructions for Forms W-2G and 5754 contain the most current withholding rates.
- II. Although rates have not been updated in the IRS Publication 3079, “Gaming Publication for Tax-Exempt Organizations,” this publication is a useful resource.
- III. IRS Tax Tip 2004-33 provides information pertaining to gambling income and expenses.
- IV. The Illinois Withholding Tax Guide contains additional information for state taxation.

K. Raffle Winnings Not Required to be Reported by the Foundation

Even in situations where the University is not required to report winnings or collect taxes, recipients still need to report such payments on their individual income tax returns.

Recipients should consult with their individual tax advisors regarding reporting requirements with respect to raffle winnings.

Questions regarding this policy should be directed to the Foundation Accounting located in the Foundation office at 309/298-1861.

12-10-14

Dated



Brad Bainter, WIU Foundation Executive Officer

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Review Schedule: every three years

Responsible Departments: WIU Foundation