

Dear Ask a Pro,

Is it acceptable to run a promotion where everyone who gives a donation to the charity within X amount of time, say a month, is entered into a drawing for an iPad? Our feeling is that this does not fall in the category where we'd have to deduct the value from their donation, because they aren't getting the iPad for the donation, they're getting entered into a drawing for the donation.

Can you shed some light on whether or not this is an acceptable practice?

Dear Is it Acceptable,

Many nonprofit organizations hold raffles to raise money. People who pay for raffle tickets purchase chances to win one or more prizes during a drawing. Although raffles provide funds to support the charitable work of nonprofit organizations, the nature of raffles, which the IRS likens to lotteries and games of chance like bingo, is that ticket purchasers expect to receive something in return. In your case, you are using the incentive of an iPad as the motivation to give. If the donor is making the gift as a chance to win something, it is considered a lottery or raffle and therefore is not deductible. You are promoting donations as a chance to win a prize.

The Internal Revenue Service, in its Publication 526 Charitable Contributions:

Taxpayers cannot take a charitable deduction for money paid to purchase raffle tickets from nonprofit organizations. The IRS includes raffle tickets in its list of "contributions you cannot deduct.

Your situation may not be called a raffle or lottery but clearly falls within that category. You may be able to give an insubstantial gift to "all" donors (under clearly defined circumstances by the IRS) without affecting deductibility. However, if the motivation to give is related to a benefit given, it would raise legitimate issues relating to tax exemption.

To avoid any questions about the legality of a tax deduction we recommend

that you find methods, other than gifts, to promote giving to your organization. A strong case for support, outreach and engagement will produce more results and establish a longer-term relationship with donors than will incentives such as an iPad.

We also recommend that you seek the counsel of a tax attorney so that you will have further support when making your decisions about tax deductibility of gifts to your nonprofit.