

CLUB RAFFLES: A Primer for Soroptimist Clubs in Founder Region*

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A. FIVE KEY RULES ABOUT LEGAL RAFFLES IN CALIFORNIA

1. Only nonprofit organizations can legally conduct raffles.
2. Before holding a raffle, you must file a raffle registration form.
3. You must also file an annual raffle report form that reports on the raffles your organization conducts in a given year.
4. **You cannot sell raffle tickets on the internet** (though you can use the internet to tell people where to buy them).
5. 90% of what the raffle takes in must be given to the nonprofit. **Only 10% can be paid out in prizes.** (SEE BELOW FOR LOOPHOLE TO THIS RULE)

B. INTERNET RAFFLE TICKET SALES RULE IN MORE DETAIL

A raffle may not be operated or conducted in any manner over the Internet, nor may raffle tickets be sold, traded, or redeemed over the Internet. An eligible organization shall not be deemed to operate or conduct a raffle over the Internet, or sell raffle tickets over the Internet, if the eligible organization advertises its raffle on the Internet or permits others to do so.

Information that MAY be conveyed on an Internet includes, but is not limited to, all of the following:

- (A) Lists, descriptions, photographs, or videos of the raffle prizes.
- (B) Lists of the prize winners.
- (C) The rules of the raffle.
- (D) Frequently asked questions and their answers.
- (E) Raffle entry forms. Forms may be **downloaded** for manual completion by raffle ticket purchasers, but forms may not be submitted through the Internet.
- (F) Raffle contact information, including the eligible organization's name, address, telephone number, facsimile number, or e-mail address.

**A disclaimer: The information contained in this document includes both excerpts of online research about how non-profits can hold raffles, as well as my personal interpretation based on hands-on experience. I am not a lawyer nor a tax accountant, and I am not (and never have been) connected to any agency with expertise in this field.*

~Tess Albin-Smith, FR Treasurer 2022-2024

EXEMPTION FROM THE INTERNET SALES RULE

EXEMPT

A raffle shall be exempt from this section if it satisfies **all of the following requirements**:

- (1) It involves a general and indiscriminate distribution of the tickets.
- (2) The tickets are offered on the same terms and conditions as the tickets for which a donation is given.
- (3) The scheme does not require any of the participants to **pay** for a chance to win.

So for example... if a club had a raffle and anyone could have a ticket without “buying” it, then money can always be donated for an organization with no “quid pro quo”, which means ticket purchase is not connected to the donation. A club could budget for and donate for a cause indiscriminately, and submit money online or send a check. The cause that holds a raffle would give every club x number of tickets (1/member or ?) automatically, regardless of money donated. An individual may also purchase more tickets in addition to the free tickets given to increase their chances, but these could not be purchased online. It would have to be the old fashioned way, with the club check.

C. **Opportunity Drawings** are pretty much a raffle in the eyes of the law

The State stipulates that you can hold an opportunity drawing (and not have to file with the State) if **all of the following are true**:

1. It involves a general and indiscriminate distributing of the tickets.
2. The tickets given away have the same winning opportunities as the tickets for which a donation is given.
3. The scheme **does not require any of the participants to pay for a chance** to win and that fact is clearly advertised.

This is the same as the online rule. Selling tickets and stating that you will give a ticket away for free “if asked” **does not comply** with these requirements and really is a raffle. Regardless, prizes awarded in an opportunity drawing are treated the same way as prizes won in a raffle in the eyes of the IRS.

Ticket sales are **not a charitable donation**, as they represent the purchase of a chance to win, and are considered 100% quid pro quo. You must state on the tickets that “ticket price is not tax deductible”.

D. Aha, two LOOPHOLES for 90/10 rule...

90% of what the raffle takes in must be given to the nonprofit. Only 10% can be paid out in prizes. **However**, there’s are 2 loopholes:

1. A raffle payout above 10% can come from a different source, such as sales of products, donations, tips, galas, or any unrestricted funds. The rule is always that 90% of the raffle income has to be used for charitable purposes. So while a 50/50 raffle or other expensive raffle, is technically illegal in California, a payout coming from a different (unrestricted account, such as your general fund) is just fine. Just make sure 90% of the raffle income goes to the service (charity account).

2. You can combine all your annual raffles into one, if that will result in a 90/10 split. The state does not ask for a breakdown of each raffle, only the combined profit and loss. For example, you hold have 5 raffles, 2 of which all the prizes are donated and are big earners (with ~100% profit). The other 2 raffles are small and the costs (payouts, costs to organize, etc.) are a higher percentage. If you combine all 5 raffle incomes and can come up with 90% for overall gross profit, you can do all 5 raffles!

Here's a cool article about the 90/10 rule:

<https://resources.rotary5320.org/club/administration/raffles/>

E. HOW TO REGISTER YOUR CLUB TO LEGALLY HOLD A RAFFLE IN CALIFORNIA and REPORTING REQUIREMENTS

To hold a raffle, you have to have your club registered as a non-profit with the IRS and Secty of State, and get a charity registration number by [filing a form CT-1](#). If you're not sure of the charity status, you can do a [search online \(link\)](#).



After you get these 3 registrations, you will annually register with form [RRF-1](#), and pay \$0-\$x/year depending on your club income. This RRF-1 form is filed annually between July and Oct. Do this whether you did a raffle or not. Large charities attach their tax forms; small charities attach a treasurers report

There are now 4 (!) other forms to do a California raffle, all filed in the fall at the same address: [The CT_nrp1](#) (raffle application) with a \$20 check, [the CT_nrp2 \(Report after\)](#), and a new one in 2020 (only for small charities earning under \$50k): the [CT-TR-1](#). Again, all four of the above will go to the State Attorney General, Registry of Charitable Trusts as indicated on the forms. Here's a link [describing and providing all the forms](#).

- **The CT-Nrp2 form asks if you sold tix online.** The penalty if you get caught for abusing the rule or not filing a form is being banned from future raffles, or for serious abuses, paying a fine or even jail. So be careful.
- **The RRF-1 form** asks for details about the raffle. You need to send a paper attachment with dates and what the raffle was for (charity causes, usually). For larger charities they require a report of assets/expenditures or your tax form.
- **The CT-TR-1** form is now required for all clubs reporting less than \$50,000 income on their IRS 990 postcard. This ask you to fill in budget figures.

This is a link to the information page about raffles on the State Attorney General's website: <https://oag.ca.gov/charities/raffles>

Here is an informative link about nonprofits with FAQ's:

<https://calnonprofits.org/publications/article-archive/544-2017-raffles-survey-findings>

A link to the actual Calif. raffle law:

https://oag.ca.gov/sites/all/files/agweb/pdfs/charities/statutes/raffles_t11c15s410-426.pdf?