



Questions and Answers About Chapter Fundraising

By Barbara Schwartz Bromberg, Esq.

The following are some typical questions that arise in the area of chapter fundraising. Appropriate answers are provided.

1. What are the conditions that enable an alumnae chapter to give fundraising proceeds to an active chapter?

Answer: As long as the fundraising proceeds do not exceed 15% of the alumnae chapter's gross receipts, the alumnae chapter is free to make whatever disposition it wishes of the proceeds, including gifts to an active chapter.

2. What percentages apply when part of the fundraising proceeds are given to charity and part are retained by the chapter for its own use or to give to another chapter?

Answer: The applicable percentages are those contained in the Fundraising Information Sheet: fundraising proceeds may not exceed 15% of the chapter's gross receipts if it is going to retain that amount for its own use or give it to another chapter. If these proceeds are to be used for charitable purposes, 20% more of gross receipts is allowed in fundraising proceeds and passive income.

3. Can two chapters work together on a fundraising project in order for one chapter to retain part of the proceeds for its own use?

Answer: Yes, but in this case, the chapters must share the fundraising proceeds in the same proportions as they work on the project.

4. If an active chapter or an alumnae chapter has a fundraising event and retains the proceeds under the 15% rule, is this Unrelated Business Income, and must it pay tax if the amount plus any other Unrelated Business Income exceeds \$1,000?

Answer: Yes. As stated in the Fundraising Information Sheet, such amounts are considered non-member income and, therefore, Unrelated Business Income, subject to the normal tax rules. A Form 990T should be filed with the IRS to report this income.

5. Many chapters have very small gross receipts amounts and yet their fundraising proceeds exceed 35%. What can they do in such a situation?

Answer: There is no easy answer to this question. Possible solutions include the following:

- A. Increase gross receipts through increasing dues or receipts from member activities.
- B. Decrease fundraising proceeds.
- C. Establish a separate Section 501(c)(3) charitable organization to engage in fundraising efforts.
- D. Consider working with another chapter on a fundraising event, as explained in Question 3 above.
- E. If the fundraising event is to benefit one or more legitimate charitable organizations, consider the solution suggested in Question 12 below.

6. How much of the fundraising proceeds can be retained by the chapter to use for start-up costs for the next year's fundraiser?

Answer: There is no real percentage answer to this question. If the amount is within the overall percentage allowed for the purposes of the fundraiser, i.e., 15% or 35%, it is permissible to retain a reasonable amount depending upon the circumstances.

7. If an alumnae chapter retains no more than 15% of the gross receipts for four or five years and puts this money in the bank drawing interest, how much can they give to an active chapter?

Answer: In such a case, there would be no limit as to what the alumnae chapter could give to the active chapter from this money.

8. If an alumnae chapter loans money to an active chapter, can it set any interest rate it chooses?

Answer: Until the enactment of the Tax Reform Act of 1984, the general answer to this question was yes. However, under this law, a required interest rate is set periodically by the Internal Revenue Service, and this rate must be charged or the differential in rate will be imputed as income to the lender. Therefore, you must consult the director of finance at national headquarters as to the required interest rate when making such loans.

9. Under the circumstances in Question 8, can any term be used?

Answer: There is no tax requirement for a particular term, although the length of the loan may affect the required interest rate under the law. Contact the director of finance at national headquarters in such a case so that appropriate guidelines can be provided.

10. If an alumnae chapter loans money to an active chapter and that active chapter closes, how can the alumnae chapter be assured of being able to recover its money?

Answer: There are a number of legal alternatives to reach this goal. They include having a demand note, obtaining security such as a mortgage on real estate, or obtaining personal guarantees of responsible individuals. There are other possibilities depending on the circumstances and states laws. It is suggested that the director of finance at national headquarters be notified by the alumnae chapter considering such an arrangement.

11. Can an alumnae chapter make donations to an active chapter from "administrative" funds?

Answer: This depends upon the origin of the "administrative" funds. As indicated previously, an alumnae chapter can use as it wishes any funds arising from dues, unrestricted donations and/or fundraising proceeds which it is allowed to retain. On the other hand, if the "administrative" funds originate from fundraising proceeds exceeding the 15% of gross receipts level or from passive income, then there is a problem.

12. If a chapter raises money for a particular charity, can a separate checking account be opened for the proceeds of this fundraising project, and thereby fall outside the 15% or 35% rule?

Answer: This may be done in some extremely narrow situations where the chapter has a close tie to the charity or charities. In such a case, it must first be determined that the beneficiary organization (or organizations) is a qualified charitable organization under Code Section 501(c)(3). The chapter should obtain from the organization's letter from the Internal Revenue Service to this effect. Such a bank account must then be completely an account of the charitable organization or organizations, and there must be no chapter control over it. For example, no officer or trustee of the chapter should have any signature authority over such an account. Obviously, this alternative requires a great deal of mutual trust between the organizations.

Special Note:

In the above discussion it has been assumed that donations to another chapter do not qualify as a charitable expenditure. There are some narrow situations in which donations to a chapter might qualify as educational and charitable. Examples of these would include funding a financial management session for a chapter, funding the appropriate educational percentages of the costs of sending a delegate to a national or regional meeting, purchasing study materials for a chapter, and funding a scholarship or student loan for a chapter member. Since these examples are extremely narrow, the director of finance at national headquarters should be consulted if there are any questions as to whether a particular donation qualifies.