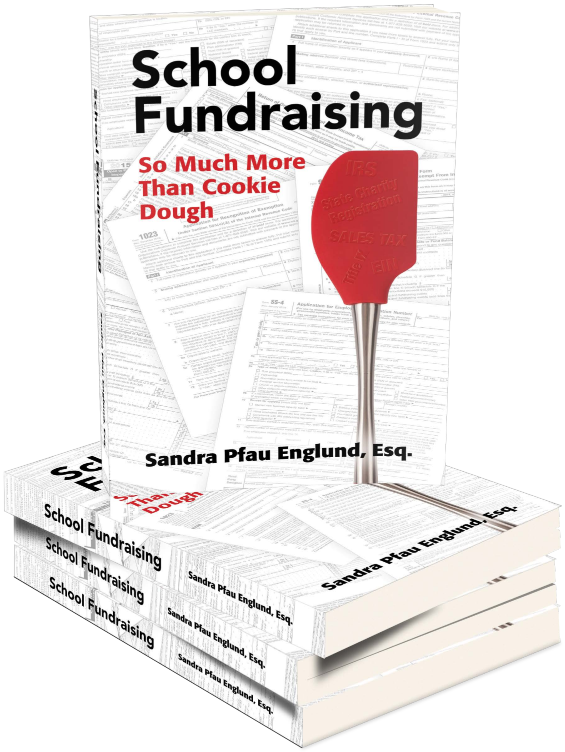

Available for purchase in ebook or print formats on amazon.com and barnesandnoble.com

Excerpt from *School Fundraising: So Much More than Cookie Dough*, Chapter 8, Fundraising do's and don'ts, pages 83-88 print edition.

Cooperative fundraising—everybody does it; nobody should

Show of hands: how many of you have been involved in, or know of, a school fundraising group that sets up accounts to credit the students and parents who participate in fundraising activities with the funds they raise? Common activity, right? The problem is that organizing any type of activity in which you keep track and credit only those people who sell the cookie dough or participate in the car wash with the money raised is not an allowable activity for a 501(c)(3) tax-exempt organization. Really? Really.

More Food for Thought

Helping students and their parents raise the money needed to travel to and march in the big city parade, or participate in gymnastics competitions, or other travel teams is common. How else will the students who can't write a $,1000 check participate? The problem is that these "cooperative fundraising" activities in which the members work together ("cooperate") to help each other pay off the high cost of participating in the sport, band, or other activity, are considered "private benefit" activities that are not allowed under IRS rules for 501(c)(3) charitable and educational groups.

IRS rules provide that nonprofit, 501(c)(3) groups must be operated ***exclusively*** to support their tax-exempt activities. None of their activities or funds may be used to help individual members raise money to pay personal expenses. This is a confusing concept that may be best explained with a little more background on why federal tax-exemption exist at all.

In the United States, all individuals, businesses and organizations that earn income are required to file and pay tax on their net earnings (aside from all the deductions, exceptions and complications that exist in the U.S. tax code). Certain organizations, however, are granted an exception to this rule, known as a tax-exemption. Tax-exemption essentially is a tax benefit that allows these groups to not pay federal income tax. In exchange for the tax-exemption, all of the activities of these groups must benefit the public in some way. None of their activities may be directed at helping specific individuals in the group (e.g. the people that participate in the fundraising).

I know what you're thinking: *How will you ever get anyone to fundraise if they don't get any benefit from helping out? How do you solve the "freeloader" problem?* Freeloaders are, in fact, the very essence of why groups are provided tax-exemption. For example, have you ever listened to public radio and not contributed to the fund drive? Is anyone barred from attending church if they don't throw money into the offering plate? Tax-exemption exists based on the idea that certain activities and services are needed in society as a whole, but everyone will not contribute equally to their continued existence.

Freeloader Solutions

There are, however, a few ways parent boosters may address the freeloader problem including:

1. set up a fair share donation program, and
2. conduct cooperative fundraising in a separate, taxable cooperative organization.

Fair Share Donation Programs

Fair share donation programs work by informing parents about the actual per-student cost of operating a specific school program and then asking parents to either donate their "fair share," or alternatively to volunteer to help raise the funds. The key to fair share donation programs is that contributions must be truly ***voluntary*** to be tax-deductible to the donor. Wording must be carefully drafted. Encourage but don't coerce donations. Here's an example:

ALL AMERICAN HIGH SCHOOL BAND BOOSTERS—ANNUAL FUND DRIVE

Dear Band Parents,

The All American High School budget contributes only a portion of the actual cost of operating the All American High School band. Your donations and help with fundraising events are essential to ensure that the band keeps marching in style.

This year the All American High School Band Boosters have been asked to raise $45,000 to supplement the school budget. With 150 students in the band this year, a contribution of $300/student is needed ($45,000/150 = $300).

Your support is vital. Please let us know how you are able to contribute your fair share to the band program this year.

I/We enclose a donation of $ ______________________ to support the band program

I/We agree to help with the following fundraising activities:

Car washes (October, December, March, May)

Candy bar sales (September)

Football game concessions

Other

Name of student: ______________________

Name of parent(s): ______________________

Email: ______________________

Email: ______________________

Cooperatives

If your group relies heavily on cooperative fundraising you might consider setting up a group that CAN legally undertake these activities. A cooperative is a type of legal entity that may operate for the individual benefit of the cooperative's members. Cooperatives may be established as nonprofit or for-profit organizations, or even as limited liability corporations. **Funds raised under a cooperative are taxable on the personal tax returns of the members who receive the income.**

IRS rules provide three key requirements for a cooperative:

1. voting in the cooperative must be democratic, with each member of the cooperative getting one vote;
2. all earnings of the cooperative must be distributed to the members in proportion to their time or other contributions to the cooperative; and,
3. IRS 1099-PATR must be issued to each member showing the earnings received each year by that member.

A school fundraising group may set up a separate cooperative fundraising entity each year and make it optional for the members of the group to join. Those who join may then elect the board and officers of the cooperative and participate in the cooperative's fundraising activities. The cooperative may track the hours each member volunteers, and/or the product sales of each member, and distribute earnings in accordance with each of the cooperative members' efforts within the cooperative.

I've been asked more than once how to handle a request from a parent who wants the money they raised to be returned to them by the school fundraising group when their child is no longer active in the group. I must tell them that the money raised in a 501(c)(3) organization can't be distributed to a member when they leave. Money raised by a member in a cooperative, however, may be distributed them when they leave.

The biggest downside of a cooperative? Some big money-making opportunities, such as volunteering to sell concessions at commercial sports venues, are only open to 501(c)(3) groups. This was a problem encountered by a fundraising group for a gymnastics competition team. They raised well over $20,000 per year by working concessions at a coliseum. The coliseum only worked with 501(c)(3) groups. The five families that did the majority of the volunteer work naturally wanted to be credited with "their earnings" from working the concessions. No matter how many different ways they proposed to distribute the money so that it was "fair," in the end all of the earnings raised by a 501(c)(3) group must be used for the good of the group as a whole and cannot be credited to those participating in fundraising.

A cooperative may, however, operate car washes, sell concessions at the school football games, sell candy bars and cookie dough, and other similar activities.

> A link to the IRS publication, *General Survey of I.R.C. 501(C)(12) Cooperatives and Examination of Current Issues* is found on the More than Cookie Dough website **morecookiedough.com**.