

Frequently Asked Questions on Tax Topics for Scrip Programs

9/18/09

These frequently asked questions (FAQs) were developed by Great Lakes Scrip Center (GLSC) in response to questions our customers are often asking about tax topics for scrip programs. Readers are strongly encouraged to review all the information we have available on our web site including a recently issued Private Letter Ruling from the Internal Revenue Service (IRS), and the summary paper we have supplied about it. Technically, only the person to whom the Private Letter Ruling was issued may rely upon it, but (as with many Private Letter Rulings) it provides helpful insights on the current analysis by the IRS with respect to scrip programs. This IRS letter, and other tax information provided by GLSC, should be helpful for scrip programs moving forward. If you have additional questions after reading these FAQs, you are encouraged to contact your local tax professional for further guidance.

1. Our organization's scrip program does not give any credit to participants for Tuition, etc., and does not consider the money raised as a charitable contribution. Does this Private Letter Ruling (PLR) affect us?

You do not have to do anything differently as a result of this PLR. You might:

- a) Consider whether you could increase your program's participation by enabling participants to potentially benefit from a charitable contribution. To do so you will need to have agreements with those participants (see our sample agreement), and provide annual acknowledgements (see section below).
- b) Use this occasion to monitor your program for exposure to liability for the Unrelated Business Income Tax (UBIT) and, if possible, take steps to minimize any potential for UBIT. See information below on UBIT.

2. Our organization's scrip program keeps all the proceeds for our organization's use. Do we have to offer a charitable contribution for our participants?

No, you do not have to offer the opportunity for a charitable contribution.

3. Our organization operates its scrip program today to raise funds for our building project. How can we have the money earned qualify as a charitable contribution deduction for our participants?

You will need to have an agreement with each of your participants where they agree to donate their rebates to your organization (see our sample agreement) and you will need to provide an annual acknowledgement of their contributions (see section below).

4. Our organization's scrip program keeps all of the proceeds for our organization's use. How can we take advantage of the new charitable contribution information?

Offering the opportunity for a charitable contribution deduction could encourage more members of your organization to participate, or, if they already participate, to participate more. Making such an opportunity available will require some additional work by your volunteer staff, but the effort could pay off in increased funds raised. See Question #1 above.

5. If participants are donating their rebates to our organization, is the deductible amount the gift card face value?

No, only the portion of the rebates that they voluntarily choose to donate may qualify as charitable contributions, and as such be potentially deductible on their individual tax returns.

6. If our organization's scrip program (that gives "tuition credit") sells scrip after church, do we need agreements with one time, or infrequent purchasers?
No, you do not need to have agreements with them. They will, of course, not have the opportunity for a charitable contribution deduction.
7. What about Grandparents, who participate in our scrip program, directing that their rebates be applied to the grandkids' accounts?
You should have them complete an agreement, just as you will with other participants. The portion of their rebate that they direct to their grandkid's tuition is NOT tax deductible, of course.
8. What if a participant chooses to have his or her rebates directed to another specific needy family's tuition account? Is that tax deductible?
If the participant chooses direct rebates to a fund that the school manages and where the school chooses the recipient, the amount of the rebate so directed should qualify as a legitimate charitable contribution (subject to all the other requirements for a charitable contribution). If it is directed to a specific needy family, by the participant, it would not qualify as a deductible charitable contribution.
9. What can happen if we want to have a "tuition credit" type program, but don't want to have all of these agreements?
If you are audited by the IRS, there is a possibility that the IRS will take the position that your organization is providing what they refer to as "private benefit" on the theory that it is the organization's income or assets that are benefiting the parent. The primary concern in this case is that the potential penalty for an organization engaging in private benefit is the loss of its section 501(c)(3) tax exempt status.
10. Where can we get a copy of your sample Participant Agreement form?
Log in to your coordinator account at www.glscrip.com. Click on the link "Tax Information" on the left side of the coordinator dashboard page. A new page will open, and you will find links to all documents and additional information at the bottom of the page.
11. If our organization's scrip program returns some of the rebate back to the participants for tuition, must our organization provide for a "cash back" option in our agreement with participants?
In our opinion, yes. The PLR clearly uses the phrases "received back in cash" and "could have received the amount in cash", so that is what we recommend.
12. Our program today requires that 50% of the rebate be retained by our school's general fund. Can we require that in our agreement?
Yes, you can. Please keep in mind that the mandated 50% amount will NOT be considered a charitable contribution, and, that money will be considered gross income to your organization, and as such, potentially subject to UBIT (see below on UBIT)
13. How much of a choice must we offer participants in our agreement form?
For the portion of the rebate that your organization will not retain, you need to offer a complete choice, including "cash back". It is important to define that portion as belonging to the participant, and not the organization, so as to avoid the potential for what the IRS calls "private benefit".

14. Our school requires that all families raise \$150 of rebates through our scrip program each year, and then shares the rebates after that 25% for our organization and 75% towards the family's tuition account. How should we handle that with this new information?
First, you will need agreements with all your families. You should modify the sample agreement to include this minimum rebate amount, and then define what happens to the rebates after that. Remember that the \$150 minimum is not a charitable contribution, and the 25% for the school after meeting this threshold is only a charitable contribution if you allow them to choose that option in the agreement. If you mandate the 25% portion, it is not a charitable contribution, and it is gross income to your school.
15. Are rebates applied to tuition deductible on a participant's tax return?
No. Rebates used for tuition (or other expenses associated with your organization) do not qualify as a charitable contribution, and are therefore NOT deductible.
16. If our organization requires that 25% of the rebate be given to the school, is that amount deductible on a participant's tax return?
No. Required payments are not considered charitable contributions, and are therefore not deductible.
17. What are Administrative Fees?
Administrative fees are a portion of the rebates that your organization may retain in order to cover normal expected costs of running your scrip program such as shipping from your scrip supplier, and supplies such as paper and envelopes, etc.
18. Are administrative fees tax deductible for participants?
No, administrative fees are not a charitable contribution.
19. Our organization distributes rebates in January, and June. When do we report charitable contributions?
To maximize the ability of your organization's participants to claim a charitable deduction, you should provide them with written acknowledgement shortly after the end of the calendar year (if not earlier). Such acknowledgement must be "contemporaneous" which is generally defined as no later than the due date for filing the tax return of the participant (April 15 for most). We refer you to IRS Publication 1771 for more information on this and any other questions about charitable contribution reporting. It is available at <http://www.irs.gov/pub/irs-pdf/p1771.pdf>.
20. How can we learn more about the end of year charitable contribution reporting?
The IRS has published a very user friendly paper on this topic that they call Publication 1771. It is available at <http://www.irs.gov/pub/irs-pdf/p1771.pdf>.
21. What should we do if our scrip program issued 1099s to our participants last year?
For advice on how to handle this issue, we refer you to your local tax professionals.
22. Do our scrip program participants need a copy of the new PLR?
No. This PLR was issued by the IRS for a specific taxpayer who requested it. Your participants do not need it for their tax returns.

23. The new PLR was issued at the end of July, 2009. Does this ruling apply for the entire year, or just since it was issued?

Please recall that this PLR was issued by the IRS for a specific taxpayer who requested it and applies on the date it was issued and applies -- at a minimum -- on a going forward basis. The more important timing question is when will your organization begin having agreements with your participants. Once you have agreements, they will apply moving forward for your program and participants. For advice for how to handle scrip transactions prior to that time, we refer you to your local tax professionals.

24. What is the Unrelated Business Income Tax (UBIT)?

For a complete explanation of UBIT, we refer you to the IRS web site at: <http://www.irs.gov/charities/article/0,,id=96106,00.html>

25. How can our non-profit organization avoid UBIT issues from our scrip program?

The easiest way is to operate "substantially all" your scrip program with volunteers. The IRS has defined "substantially all" as 85% of the work required to run your program.

26. What do you mean by "85% of the work"? Are you talking about volunteer labor hours or amount of scrip sold?

We are talking about 85% of the hours to run your scrip program. We recommend that a good first step is to have your volunteers and others involved in managing your scrip program keep a diary, or journal of the time they are spending, so you can determine with accuracy how much time is being spent by volunteers, and what percentage might be performed by organization employees.

27. What if we use an organization employee to manage our scrip program?

If your program is operated more than 15% of the time by employees of your organization, then you will need to consult with your local CPA to determine what, if any, unrelated business income tax liability you may have.

28. What if our organization doesn't pay our volunteers, but compensates them for their time with gift cards? Do we still have a problem?

Any person who is involved in operating your scrip program, who is compensated for their time in any way (pay check, gift cards, tuition credits, etc.), is not considered a volunteer.

29. How can ShopWithScrip.com and SCRIPWARE help our organization manage these tax topics?

Either application does a good job of helping you track family purchases, as well as making it easiest for your families to place orders with your scrip program on-line, 24/7. SCRIPWARE has features that allow you to define each participant's choices for allocating the rebates that they earn from their purchases. It also has features to make distribution of those rebates much easier.